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THE INTELLIGENT MAN'S GUIDE TO THE POST-WAR WORLD

THE INTELLIGENT MAN'S *GUIDE TO THE* POST-WAR WORLD

by

G. D. H. COLE

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A GUIDE TO THE POST-WAR WORLD

A number of the matters discussed in this volume have been dealt with more fully, or from a different angle, in other books by the same author, especially the following:

Money, Present and Future. Revised Edition, 1947. (For Bretton Woods, the American Loan, and International Trade and Financial Policy.)

Europe, Russia, and the Future. 1941. (For an anticipation, not too remote from what has actually occurred, of the effects of the war on the political structure of Europe.)

Great Britain in the Post-War World. 1942. (For a similar anticipation of the effects of the war on Great Britain's economic position and political alignment.)

The Means to Full Employment. 1943. (For a fuller discussion of the policy and programme required for maintaining full employment in post-war Britain.)

Building and Planning. 1945. (For the essentials of building and town and country planning policy.)

Fabian Socialism. 1943. (For a fuller statement of the creed of 'liberal' Socialism which underlies the whole of the present volume.)

Labour's Foreign Policy. 1946. (A *New Statesman* pamphlet dealing particularly with the treatment of Germany and with the question of unity in Western Europe.)

Reparations and the Future of German Industry. 1945. (A Fabian pamphlet.)

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PREFACE

THE WRITING OF THIS BOOK has been spread over several years—for I began it a long time before the fighting was over, even in Europe. I think every part of it has been completely re-written at least once, and considerable parts of it half a dozen times; for I have tried to keep abreast of current developments up to the latest possible moment. Whole sections have been discarded in order to make room for others as the centres of contemporary importance have shifted; and it has been difficult to preserve a fair balance among the host of subjects claiming attention. I let it go finally, at the end of March, 1947, in the hope that the selection of topics I have made will give most readers as much of what they want as it is possible to bring between the covers of an exceptionally fat volume. I have tried to make it easy for them, where they do not want all that I have written, to find what chiefly interests them, by providing both a rather elaborate Table of Contents and a full Index—which has cost a great deal of trouble.

In a sense, this volume is a sequel to the trilogy of books which I wrote—two of them in collaboration with my wife—in the 1930's. This trilogy began with *The Intelligent Man's Guide through World Chaos*, published in 1932 and dealing primarily with the world situation on the morrow of the World Economic Crisis of 1931. This work was followed in 1933 by *The Intelligent Man's Review of Europe To-day*, which was receiving its final revision when the Nazis seized power in Germany. The series was completed by *A Guide to Modern Politics* (1934), which gave special attention both to German and Italian Fascism and to the course of political development in Japan, China, and other countries outside Europe.

In the present volume, I have for the most part avoided repeating what was said in the earlier books, though some repetition has been unavoidable. Consequently, the reader will find here no full account of the social and economic systems of the leading countries—much less of their history, except the most recent of all. I have had to limit myself strictly to current affairs and tendencies, and to take a great deal of the background for granted, in order to compress what I wanted to say into the space available. Even so, my book is very long, but not nearly so long as the tale of the world's calamities and follies in recent years.

I have certain acknowledgments to make: to Rosamund Broadley, for unfailing secretarial help at every stage, help going far beyond what any man could expect of a secretary and impossible to acknowledge in full; to my son, H. J. D. Cole, and to my wife for collaboration in the body-and-soul-destroying task of making the Index, and in other things; to D. B. Halpern, for invaluable aid in press-cutting and in the gathering of statistics, as well as for critical comment on certain sections; and to a number of my Fabian and All Souls colleagues, for advice on particular points.

G. D. H. Cole.

Hendon.
1947.

GENERAL INTRODUCTION

THE BOOK TO WHICH this is an introduction is addressed not to experts but to ordinary men and women of intelligence, and especially to those who, during the past few years, have had scant time or opportunity to keep abreast of current facts and ideas, or to study things for themselves in any regular or systematic way. It is addressed particularly to men and women coming out of the armed forces or the public services, to workers set free from munition factories or other forms of war work, and to young people who are just beginning to want to know about the facts and tendencies on which they must base their judgments in political and economic affairs. In short, it is meant for intelligent electors—present and future—or rather for as many of them as are prepared to go to the trouble of understanding a living problem when it is set before them, not in technical jargon or in words unnecessarily obscure, but as plainly as it can be set without distortion of its real significance. Such simplified presentation is not easy to achieve at all points. Some subjects are difficult of their very nature; and many more are made difficult for ordinary people because the experts have developed for discussing them a language which only other experts can understand. It is often difficult to unscramble such eggs of academic discourse. I cannot pretend that every reader who goes so far as to give his mind to this book will find everything in it perfectly straightforward and easy. I should only be playing false with my readers if I attempted to make it so; for I could not do it without consciously suppressing vital parts of the truth. What I can claim is that I have taken a good deal of trouble to put everything as simply as it can be put without telling lies about it, and that I have done my best never to use a hard or unfamiliar word when I could do without it, or to use it, when I have to, without explaining what it means.

This book is not an academic treatise. It makes no pretence of being a textbook, or of following any formal arrangement based on the shape of regular academic studies. But I hope that does not make it any the less educational; and certainly I am nowhere in it conscious of distorting the truth for any propagandist end. It is, however, in a sense, frankly propagandist; for it is written definitely with a purpose, beyond that of stating

what I believe to be the salient facts. I have written it in the hope that it will affect action, at a time when men are called upon to act with decision and when their manner of action is more than normally important in its influence on the shape of things to come. As I have this in mind, I am under a special obligation to be entirely frank with my readers about my own point of view—the assumptions from which I set out to survey the world, the values to which I assign pre-eminence. I have accordingly tried to set down, as succinctly as I can, what these assumptions and fundamental judgments of value are; and I put them here, right in the forefront of my study, as the best assurance I can give of my will to play fair with my readers, and not to lead them on without giving them the clearest indication I can of the purpose of the journey.

It will be known to some of my readers that I have been for a long time closely connected both with the Socialist movement and with academic life. I have been a University teacher, holding Socialist opinions, but pursuing teaching and writing, and not 'practical politics,' as my professional job. I had never stood for Parliament until I consented under pressure to stand for my own University in 1945; and I was much relieved not to be elected. Nor have I ever attempted to become a delegate to the Labour Party Conference, or aspired to the position of a leader in the world of politics, for which I have a temperamental lack of aptitude and taste. I have often expressed strong opinions, and have always dissented energetically from the view—usually held only in relation to those whose opinions are 'advanced'—that it is improper in a teacher to express his views strongly, or even to be known to have strong views on any political question. I assert my right, as a teacher, to teach what I believe to be the truth, whether other people agree with me or not—but with the proviso that, if I set out to teach, I must never conceal a weakness in my own case or allow myself to be diverted by considerations of political expediency from telling the truth to the best of my ability to see it. To teach on any other terms would be to consent to ply my calling with less than my whole mind, and with less than the best of my mind; and how could I hope to be a good teacher if I had to place myself in so false a position with my pupils as to conceal from them a vital part of my thought?

The relation of writer to reader is inevitably less personal than the relation of oral teacher to those with whom he is placed in personal contact. But the need for frankness is no less: it may even be greater, because readers cannot ask questions, and oral learners can. This preliminary confession of assumptions is my

answer to those who wish to know what are my motives in writing, and along what paths I am attempting to draw them in what I have written down.

What I take for Granted

(1) *Standards of Living.* I assume that the most universally important of all the objects of political and social activity is to raise the standards of living of ordinary people in our own country and throughout the world (we have a special responsibility for our own country, but an only less immediate responsibility for others), in such a way as to put an end to malnutrition, preventable disease and mortality, illiteracy and ignorance, and sub-human living and working conditions wherever they exist. I assume that no other object can claim any allegiance when it conflicts seriously with this primary object.

(2) *Personal and Political Freedom.* I assume that freedom and self-government are good things, for both individuals and societies, and that it is the business of all good men to oppose tyranny, either of man over man, or of ruling State over subject people. But I cannot state this second assumption in as unequivocal terms as the first, because obviously neither individuals nor societies can be left entirely uncontrolled. There must be a rule of law, for both men and peoples; and all that can be sought is that this rule shall be such as to provide within the social environment the largest amounts of liberty for all men and for all peoples that are consistent with the equal claims of other men and of other peoples. This, however, includes the assumption that self-government is good *in itself*, and that the good constitution is that which gives all the inhabitants of a country (or of the world) the best chance they are capable of taking to play a real and effective part in government.

(3) *Canons of Social Conduct.* I assume that, whenever a man or a government, or any group of men or governments, acts in a way that can be defended only on the ground that the action is necessary because of the imperfections of individual, group, or government moral behaviour, the necessity for so acting is to be regarded as a challenge to use all possible efforts to raise the standards of such behaviour, and that no one is ever justified in invoking this defence unless he is using his best endeavours to that end.

(4) *The Duty of Service.* I assume that every person is under an obligation to use his powers, whatever they are, in such a way as not merely to avoid being a burden on society, if he or she can help it, but positively to contribute to social well-being. This implies, for all normal persons, an obligation to do a fair

day's work and not to be unduly exacting about the reward, an obligation to develop valuable talents and not to fritter them away, and an obligation to be a good colleague, so as to help instead of hindering the work of others.

(5) *The Right to go One's Own Way.* I assume that every person has a right, within wide limits, to go his own way and not to be interfered with or badgered about on grounds of nonconformity, as long as he is tolerably fulfilling his obligations as set out in the previous clause. I assume that it takes many sorts (not *all*) to make a good world, and that the only sorts it does not take are those who are either deliberately trying to make a bad one or unprepared to recognise any code of social behaviour resting on the notion of moral rights and duties.

(6) *Morality.* I assume that the simple rules of common morality are valid, and that no one is ever entitled to override a moral rule except in pursuit of a higher moral end falling within (and not beyond) the ambit of common morality. I define these moral rules, for working purposes, as (*a*) a duty to be kind, (*b*) a duty to be tolerant of differences within the limits of morality as here defined, (*c*) a duty to regard every human being as an end and not a means, (*d*) a duty to deny the validity of and to resist all claims that are contrary to fundamental human equality of rights, (*e*) a duty to be active, up to the limit of one's powers, in standing up for the observance of these principles.

(7) *The Brotherhood of Man.* I assume that all men are brothers, and that the only valid reason for hating one's brother is that he is acting against what is good and right, in denial of our fundamental common morality.

(8) *Truth.* I assume that truth is preferable to falsehood, and that it is good to enlarge the realm of truth both by new discovery and by the spreading of existing knowledge. I assume that men are better for being educated in the truth, whether they are happier or not.

(9) *Freedom of Speech.* It follows that I assume the freedom of speech and publication to be good, with the sole restriction that they cannot legitimately be used either (*a*) to deny fundamental common morality, or (*b*) to attack toleration and freedom of speech and publication within this sole limit.

(10) *Freedom of Association.* I assume that freedom of association is good, because men cannot enjoy full opportunities of self-government or of discovery of truth unless they are free to join together for common group purposes. I assume that the only limitations on the freedom of association should be identical with those limiting freedom of speech and publication.

(11) *Freedom of Will.* I assume that men enjoy free will, in the sense that their history is not predestined, but made by their own ways of handling the opportunities presented to them in each generation by (*a*) their physical and traditional environments, and (*b*) their knowledge and abilities. Accordingly, I assume that the world may get better or worse, as men by their wisdom or stupidity make it better or worse.

(12) *Right and Wrong Vision.* I assume that everyone who acts against these principles is either a scoundrel, or blind. But, believing real scoundrels to be rare, I assume most of those who offend to be suffering from defective vision. By vision I here mean imagination, especially power to put oneself in the places of others, and to think objectively, setting self-interest apart. No one can do these things wholly; but everyone can try to achieve them if he is given a chance. To give all men the best possible chance is one of the three great purposes of education. The other two are (*a*) to teach truth, (*b*) to teach citizenship.

This is not meant to be a complete *credo* of assumptions. It is, however, I hope, enough to make my point of view sufficiently plain. It is not a call to men to act after an impracticably high standard, but only to be always doing what they can to pull up the standards by which they and other men act. I am well aware of the dangers of 'idealistic' behaviour that ignores realities: we are all so often reminded of these dangers nowadays that there is no risk of our forgetting them. I wish rather to stress the danger of acting without any moral standards at all. The attempt to be realistically amoral is nonsensical. A man cannot be realistic in political or social matters except in relation to an end, and that end cannot be devoid of moral content. It may be a bad end, or a good one: it cannot be merely neutral. The cant which suggests that one can set out to be 'scientific' instead of being moral is based on sheer muddled thinking. One can set out to be scientific *and* moral, or scientific and immoral; but the realm of science is that of means, not of ends. Ends are essentially moral. The outlook for the world would not be any the less good, or bad, if it could be predicted scientifically.

Taking Sides

I have written all this down at the beginning of my book because I want there to be no mistake about the side I am on. I am on the side of the common people, in the sense that I want *all* men to have an equal chance of the good life and of living it in the ways that suit them best. This does not mean that I want all men to have everything the majority of them would

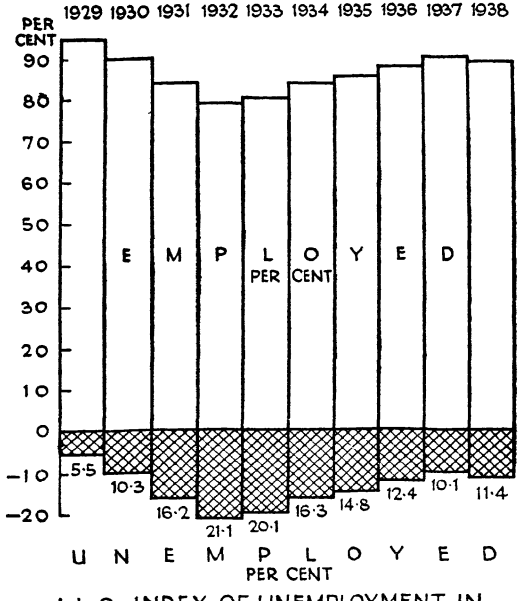
vote for now, if they were asked. I do not stand for that kind of democracy. I want people to have good nutrition, good housing, good education, good working conditions, freedom of speech, writing and association, self-government, peaceful relations with their neighbours, sound moral notions, whether they would vote for having them or not. To this extent, but no further, I am prepared to assert that I know better what is good for people than many of them can know for themselves, being less well informed and more held in mental subjection. By the democracy I stand for I mean making the people really free and self-governing, not the votes they record when they are neither. Voting is merely a handy device: it is not to be identified with democracy, which is a mental and moral relation of man to man.

I am, in effect, a Socialist. By Socialism I mean fundamentally, not a particular economic arrangement by which the State owns and runs industry, but the entire body of principles which I have set out on the foregoing pages. The public ownership of the essential means of production follows from these principles, at the present stage of social evolution, at any rate in the more advanced countries. It is a means towards making them effective, not an end in itself, or to be pursued save to the extent to which it is a means. There is nothing sacred about nationalisation; but can we find, for the main industries and services, any alternative way of ensuring that they shall be used to serve the ends here postulated? Without a high degree of economic equality, we cannot have either freedom and self-government for all, or a satisfactory standard of living for all. At any rate, that is my view: why, I shall explain later. I may be wrong about that; for about means we may at any time be wrong. But I am not wrong about the ends I have laid down as good. They are good, in a thoroughly and finally objective sense. They are good, not merely for us, at the present point in historical development, and not merely in relation to the particular pattern of living which our civilisation has worked out. They are good altogether and *for good*, from the moment of their conception in any man's mind. Their goodness cannot be altered, though its implications can be broadened and deepened, as a consequence of anything that may happen to mankind. They are as true in the 'atomic' as in the 'pre-atomic' era; and they will be no less true in a hundred or a thousand years than they are to-day. Anyone who denies their truth is blind, or mad, or wicked, or at least purblind. They are the postulates from which I set out; and I am not arguing with anyone who denies them: I am simply telling him.

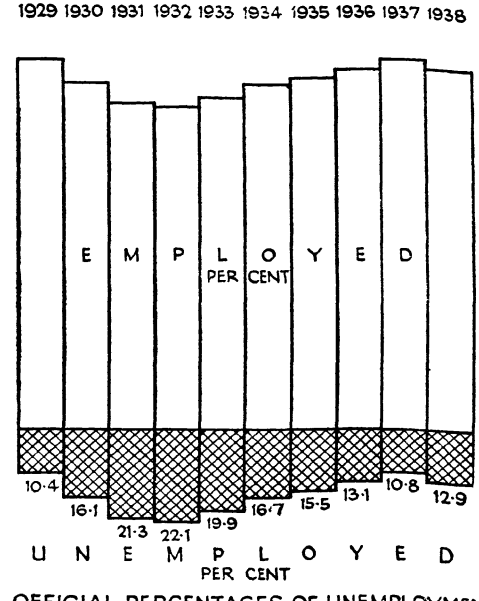
PART ONE

INTRODUCTORY

UNEMPLOYMENT BEFORE THE WAR.



I. L. O. INDEX OF UNEMPLOYMENT IN 15 INDUSTRIAL COUNTRIES



OFFICIAL PERCENTAGES OF UNEMPLOYMENT IN GREAT BRITAIN

EACH COLUMN REPRESENTS 100 PER CENT OF REGISTERED WORKERS

CHAPTER I

THE RIGHT TO WORK

FOR MORE THAN SIX YEARS after 1939 there was in Great Britain and in the other great belligerent countries no unemployment in any sense that mattered. Year after year, between the wars, the numbers recorded in Great Britain as out of work hardly ever fell below a million and a half. Often, they were much higher. For three years on end, from 1931 to 1933, they consistently averaged more than two and a half millions. Week in, week out, the dreary queues haunted the Employment Exchanges. Year after year, there were many thousands who never knew what it was to have a job. Even in 1939, when we were supposed to be busily preparing for war, more than one worker in every ten was standing idle. Over the nine years from 1930 to 1938 the average was about one in every five.

Were we so rich, before the war, that we could afford to waste, on the average, one-fifth of our productive power? I say 'productive power' advisedly, for in the last resort our productive power consists of human beings. These human beings need, no doubt, machines and tools to work with, and materials to work upon. But it was not shortage of tools or materials that was keeping them unemployed. It is labour that digs materials out of the earth, or raises them upon its surface: it is labour that makes tools and machines and buildings to contain them. Manpower, as we know well enough in wartime, is at the back of all production.

Not crude, unskilled man-power only, I agree. The making of things needs brain, skill, dexterity, as well as—nowadays much more than—sheer physical strength. Were we then short of brains or skill or dexterity? Surely not. Among the unemployed were many thousands of highly skilled workers; and there were highly qualified technicians and administrators who could not find jobs to employ their powers. There was nothing wrong with the men and women, except a few, at any rate until they had been allowed to forget, in enforced idleness, how to do a good day's work. Then, no doubt, some lost a part of their skill, and yet more of the hope and zest in life that make a man able to do his best. The fault, till then, lay not in the men and women,

but in the system that suffered them to rot away, and denied them the means of satisfying one another's needs.

It was sometimes said, of course, that many of the unemployed were 'unemployable'—though no evidence of this was ever produced, and such evidence as there was made plainly on the other side. War soon swept the lie away. No one doubted that the unemployed were worth employing to make munitions, or to release men and women for the services, or themselves to serve. Unemployment fell away to almost nothing; and it became necessary to scour every possible source of additional labour and to press every available person into a job. If they did not know what they needed to know for the work on hand, they were taught, just as in the services they were taught to be soldiers or sailors or airmen, or A.T.S. or Wrens or Waafs. Man-power was what counted, first for averting defeat and then for compassing victory. Men and women were no longer nuisances needing to be kept in idleness: they were well worth their keep, as many of them as could work at all.

Were we so rich, before the war, that we could afford to adopt such different standards of value, even deeming it cheaper, and more economical, to keep millions of people in idleness than to set them to work? Doubtless, when idle, they ate less, drank less, dressed more shabbily, lived more meanly than when at work: we, or rather our rulers, saw to it that they did. But, if we had set them to work, would the product of their labour have been worth nothing? Could it really be cheaper to keep them, meanly, in sheer idleness than to allow them to contribute towards the cost of their own decent maintenance? Even if they had produced only half as much as they consumed, only half their consumption would have had to be supplied by the labours of others. Even on this most unfavourable assumption the entire community would have been able to live better, and would not have been put to shame by its treatment of the less fortunate.

But why should the unemployed have produced less than their keep, if they had been given the chance to work? It is doubtful whether they were, man for man and woman for woman, on the average any less skilled or industrious than those who were in jobs. Of course, some of them were; for in any trade, the worse workers will tend to be rather less regularly employed than the better. There are, however, special reasons why we cannot conclude from this that the unemployed in general had a lower average productive power than the employed workers. Lack of jobs was not spread evenly over the country, or between trade and trade. There were large areas, such as South Wales, where

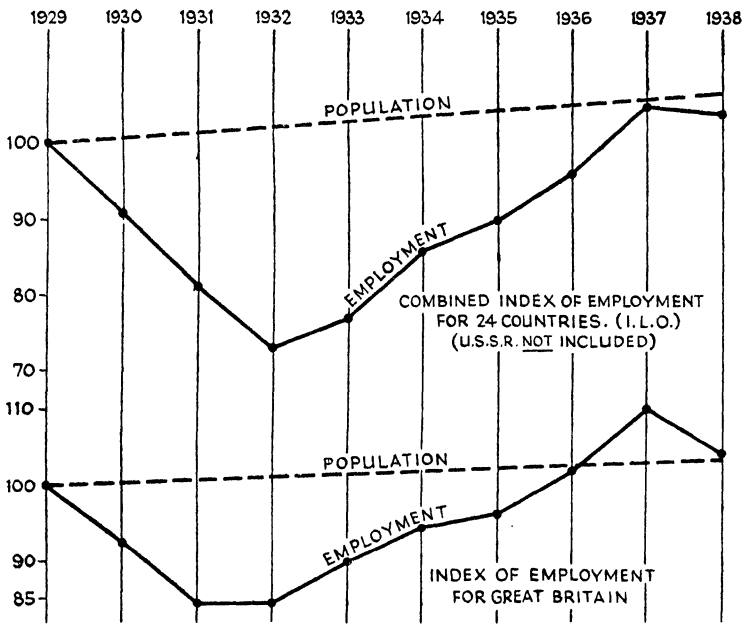
the level of unemployment was monstrously high year after year: there were whole industries in which the level was continuously far above the average for industry as a whole. A man or woman might have all the virtues, and yet fail to get a job in a South Wales mining valley or a shipyard or a cotton town; and the industries which were continuously most depressed—coal-mining, shipbuilding, cotton—were among those which had the highest proportions of skilled and intelligent workers. The unemployment of the decades between the wars was no respecter of persons. It smote down skilled and unskilled together, devastating the homes of men and women who had been justly proud of their traditions of craftsmanship, of their independence, and of their ability to bring up well-nourished, intelligent children to better their parents' achievement. If they failed in this, it was not their fault.

It was not, I have said, for lack of tools or of materials that the labour of these workers went unused. In the great majority of industries there was productive plant unemployed; and in many there were even associations of business men formed, in some cases with the countenance of the Government, for the purpose of buying up such plant and destroying it as 'redundant.' The cry of 'surplus capacity' went up from one ring of capitalist firms after another. Where, as in a few rapidly expanding trades, there was not much plant to spare, more could easily have been made. The trades that exist to make machinery were mostly crying out for orders; and there was plenty of labour for them to employ. As for materials, the world was full of surplus stocks waiting to be sold. Both the agricultural and the extractive (mining) industries all over the world wanted larger markets. Materials of most kinds were cheap in terms of other goods, because the suppliers of them were eager to sell.

The Cause of Unemployment

Why, then, were millions of industrial workers unemployed, not only in Great Britain, but in other industrial countries as well—in France, Belgium, Northern Italy, the United States, to mention only a few? These millions were without work, to put the case quite simply, because employers in these countries saw no sufficient prospect of profit from employing them. The only industrial countries in which, during the years just before the war, unemployment did not exist on a serious scale were the Soviet Union and Nazi Germany; and the reason for these exceptions, different as it was in one sense, was in a negative sense the same. Neither in the Soviet Union nor in Nazi Germany did the Government leave the level of employment to be settled

by the profit-expectations of business men. In the Soviet Union, where the main industries and services were publicly owned and production was governed by a vast State-made plan, need and not profit was the determining factor. Industrial employment in the Soviet Union more than doubled between 1929 and 1934, and went on rising sharply after that. The Soviet peoples needed much more than they could hope to produce with all the manpower and other resources at their command: the question for



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the Soviet Government was not *whether* to employ all the available labour, but how to employ it best, in meeting the most urgent needs. This, until the world has grown much richer and more productive than it is likely to be for a long time yet, must always be the problem for a Socialist country. When need, not profit, is the criterion of what is worth while, it is impossible to produce too much, or to suppose for a moment that it can be more economical to leave men idle than to set them to useful work.

Employment under Nazism

It should be easy to understand why there was no unemployment problem in the Soviet Union; but why was there little in Nazi Germany? The Nazis also had a use for everything that German man-power could produce. They had a use for it, as we had in Great Britain after 1939. They were getting ready for war. They were not only making munitions, and factories in readiness for making munitions. They were laying up store of everything that could be stored, and building up their productive power in preparation for the tremendous strain of the war of world conquest they had made up their minds to wage.

Consequently, the Nazis, no more than the Russians, could afford to let workers or factories stand idle. Unlike the Russians, they had left the industries of Germany in private ownership, and the German employers to aim at private profits. But they did not allow the prospects of profit to determine the level of production. They had a summary way with business men who failed to carry out their orders; and they did not hesitate to order firms to produce more, and to employ more workers, than they would have done if profit had been their sole guide to action. Coercion, however, though it was freely used, was not the Nazis' only instrument. They saw to it that it should pay employers tolerably well to take on all the labour and produce all the goods that the State wished to see produced. Where need arose, they subsidised production, especially for export; for they needed large exports to pay for many kinds of materials essential for war which they could not produce at home. Apart from this, the Nazi Government bought up and stored goods against war needs; and it pursued steadily a policy of ensuring that there should be, in one form or another, enough demand to take off the market all that could be produced. *How* this was done we shall see later on: for the present we need only take note that it was done, when millions were left idle in other capitalist countries, and that the doing of it immeasurably strengthened Nazi Germany for war.

Correspondingly, our failure to employ our unemployed weakened us. While the Nazis were increasing their war potential by building up their economic power, we, or rather our rulers, were allowing—nay, encouraging—our shipbuilding capitalists to buy up 'redundant' shipyards and lay them waste in order to prevent them from being ever used again, our shipowners to scrap 'redundant' vessels, our steelmakers to make an end of 'redundant' steelworks—'redundant' meaning in all these cases in excess of what could be used to secure the largest possible profits for the owners of those that were left. Even supposing that,

in some industries such as cotton manufacture, some of the scrapped plant was redundant or obsolete—a point to which I shall come back—could it be right to scrap these instruments of production without ensuring the creation of others to take on the labour they might have employed? Our Government did nothing—or next to nothing—to increase the openings for employment, even to the extent of making up for what was being destroyed with its goodwill. Our Government did not accept any responsibility for there being jobs enough to go round, or output enough to satisfy the people's needs. It left that to the profit-seekers, in the name of 'private enterprise.' It went on repudiating all responsibility even when so-called 'trade revival,' as in 1937, still left 11 per cent. of the insured workers out of work.

The Right to Work

'The Right to Work' is a very old cry—as old as the Socialist movement. It was raised by the workers who manned the Paris Barricades in 1848; and on that occasion the Christian Socialist, Charles Kingsley, acclaimed it as worth a hundred of the Chartist cry of 'Manhood Suffrage,' because it got further down to realities. It was the cry of John Burns and the unemployed demonstrators of 1886, and again of Keir Hardie and the new Independent Labour Party of 1893. Year after year, in the new century, Labour M.Ps. brought forward their 'Right to Work Bill' in the House of Commons. They were always defeated: the capitalist parties always denied that it was any part of the Government's responsibility to find work for the people. Unemployment was regarded either as an unavoidable calamity, which men and women must bear as best they could, or even as a necessary condition of capitalist production, which required a 'reserve of labour' in order to cope with booms and preserve discipline among the employed. No weapon was so powerful in keeping the workers in subjection as the fear of 'the sack'—and of being unable to find another job.

In the days before the first World War unemployment ranged between 2 per cent. at the best and 8 per cent. at the worst among the workers (mainly skilled) whose employment records were known. The average was probably higher among the less skilled workers; but even among them it was undoubtedly much lower than it came to be after 1918. From 1891 to 1900 the recorded average was 4½ per cent., from 1901 to 1910 it was 5 per cent., and from 1911 to 1914 less than 3 per cent. It had been higher in the 1870's and the 1880's; but most people supposed up to 1914 that economic depressions were getting less

severe as the capitalist system settled down. They little knew what was coming, on the morrow of the first World War.

In the bad years between the two wars the cry for work came back with renewed vigour, in face of unemployed totals which remained persistently high even in what were called 'good years' and rose to appalling heights in the recurrent depressions which swept, not merely Great Britain, but the entire capitalist world. The worst slump capitalism had ever experienced began with a crisis in Wall Street—the New York stock market—in 1929, continued with crises in Great Britain and over most of Europe in 1931, and reached bottom in the terrible years of slump, 1932 and 1933. In 1932 world production of raw materials was down by 25 per cent. on the production of 1929; world industrial production was down by 30 per cent. (or by 36 per cent., if we leave out the U.S.S.R., where it had gone up sharply); only world production of foodstuffs had been maintained practically without change, and in their case prices had slumped to levels ruinous to the producers. In fifteen leading industrial countries, the unemployed averaged more than one in five of the industrial population.

The Old Economics and the New

Up to this point, most of the professional economists, except the Socialists, had upheld the view that the State should accept no responsibility for the maintenance of employment. This view was part of the classical economic doctrine of *laissez-faire*. Unemployment was blamed on a number of causes, one of the commonest assertions being that it was largely due to the influence of Trade Unions in keeping wages too high. If wages fell to the correct 'demand price' of labour, said the orthodox economists, echoing the main body of employers, it would pay capitalists to engage more workers, and unemployment would sink to the level necessary for a 'reserve of labour.' There was an evident fallacy in this argument; but it was not seen—indeed, it was angrily denied. What was left out of account was, of course, that wages, which are *costs* to the employer, are *purchasing power* to the workers, and that the fall in wages would reduce the consuming power of the great mass of the people and thus make them able to buy less instead of more, unless prices fell more than in proportion to the fall in wages. But if prices did fall more than wages, capitalists would find production less remunerative than ever, and would be ready to engage less labour instead of more; whereas, if prices fell less than wages, demand would be reduced for a wide range of consumers' goods, and so, again,

fewer workers would be employed. This was not seen, because each employer persisted in thinking how he would be affected if he could reduce his costs by cutting wages and could still find the market for his wares as good as before. This, however, it could be only if other employers did *not* cut wages, and so reduce demand. The fallacy here involved is known to logicians as the 'fallacy of composition'; but it continued to pass current as valid truth among economists of repute, as well as among business men. Indeed, those who denied it—notably the late John A. Hobson, one of the most notable economists Great Britain has produced—were denounced all their lives as 'heretics' and were startingly rehabilitated only when they were safely dead.

Theories of Unemployment

It took the experience of persistent, heavy unemployment between the wars to induce non-socialist economists to re-examine their fundamental assumptions, to the extent of conceiving it to be possible that the failure of capitalist societies operated on the basis of *laissez-faire* to make even tolerably full use of their productive resources might be due to some flaw in the system itself, rather than to the unreasonableness of the working classes. Meanwhile, many unorthodox thinkers, in search of an explanation of the extraordinary paradox of starvation in the midst of the means of creating plenty, had been led to believe that the fault must lie in the behaviour of money. Some, the nearest to orthodoxy, laid the blame on what they called "the inherent instability of credit," and traced the alternating ups and downs of employment and production to the action of the bankers in creating first too much and then too little money to keep the wheels of commerce turning at an even rate. Others believed themselves to have discovered a "flaw in the price-system," such as to lead to recurrent, or even to continuous, shortages of purchasing power. Yet others, putting their trust in psychology, laid the entire trouble at the doorsteps of business men, who were alleged to suffer from alternating—and apparently causeless —errors of optimism and pessimism, so as to produce now too much and now too little and now to engage and now to discharge workers according to the state of their spirits, or their digestions.

Most of these attempts at explanation were directed mainly to giving an account of the reasons for the sharp falling off of employment in bad times; or at any rate the variation in the level of employment between good times and bad. Most of them made little attempt to explain why, after 1918, there was so much unemployment even when times were supposed to be good. Take

the percentages—not quite comparable, but near enough for our purpose—recorded as unemployed for the years from 1922 to 1938 and set against them the percentages for an equal number of years before 1914.

UNEMPLOYMENT IN GREAT BRITAIN BEFORE AND AFTER THE FIRST WORLD WAR (*per cent*)

	1922	*1923*	*1924*	*1925*	*1926*	*1927*	*1928*	*1929*	*1930*
	14·3	11·7	10·3	13·3	12·5	9·7	10·8	10·4	16·1
	1897	*1898*	*1899*	*1900*	*1901*	*1902*	*1903*	*1904*	*1905*
	3·3	2·8	2·0	2·5	3·3	4·0	4·7	6·0	5·0
Excess	11·0	8·9	8·3	10·8	9·2	5·7	6·1	4·4	11·1

	1931	*1932*	*1933*	*1934*	*1935*	*1936*	*1937*	*1938*
	21·3	22·1	19·9	16·7	15·5	13·2	10·8	12·9
	1906	*1907*	*1908*	*1909*	*1910*	*1911*	*1912*	*1913*
	3·6	3·7	7·8	7·7	4·7	3·0	3·2	2·1
Excess	17·7	18·4	12·1	9·0	10·8	10·2	7·6	10·8

Over this period of seventeen years between 1922 and 1938, the percentage unemployed was on the average more than three times as high as it was over the seventeen years before 1914, the *excess* amounting on the average to 10 per cent. of the whole labour force. Even if some allowance is made for the different basis of the two sets of figures, it is beyond question that the average level of unemployment was at least twice as high between the wars as it was before 1914. No explanation which showed only why employment fluctuated from year to year could go any way towards elucidating this startling difference of average level, over good and bad years together. It was plain that there must be something very badly amiss with an economic system that thus disastrously wasted its productive powers.

Maintaining the Unemployed

There were, however, reasons why economists, other than Socialists, concentrated their attention mainly on the ups and downs, rather than on the low basic level of employment. When the level of unemployment did not rise much above 10 per cent., the social problem which it presented was manageable, and did not seem too dreadful to most of those who were not directly its victims. After the first World War there was instituted a fairly comprehensive scheme of compulsory unemployment insurance, under which benefits were payable to most workers who found themselves out of work when times were not too bad. The

workman contributed out of his wages towards the cost of these benefits: the employer contributed a sum—in most cases equal to the workman's payment—as a cost of production; and the State added a further sum, at first small but gradually increased, out of the yield of the taxes. These sums kept the workman and his family without positive disaster, though by no means without hardship, provided the period of unemployment did not last too long. But in times of serious depression, when the numbers out of work rose high and those who lost jobs were in many cases unable to find new ones for years on end, the method of insurance broke down, and the State had to come to the rescue of the unemployment fund by providing additional money and, in the end, by taking those who had been long out of work off the shoulders of the insurance scheme and providing for them wholly out of taxation.

There was no end of trouble over these questions. How much money ought the unemployed and their dependants to be given to live on? If they had savings, ought they to be compelled to spend these before they could look to the State for support? For how long ought they to be allowed, in return for the contributions they had paid when in work, to draw benefits as of right when they were out of work? When they ran out of benefit under the insurance scheme, what conditions should the State attach to giving them help? Should there be special rules against giving benefits to married women whose husbands were employed? And so on, through an endless range of questions which Parliament year after year spent much of its time in debating. The severe unemployment of bad times became, whether one liked it or not, an acute political question. It could not be simply shoved aside by paying the unemployed meagre benefits on which, eked out by such savings as they had, they could contrive to get through normal spells of unemployment without spectacular disaster.

The Distressed Areas

But for one thing, many politicians would have been quite prepared to let alone the 10 per cent. or so of unemployment that existed in 'good' years, if only they could have found ways of preventing the doubling of the total in 'bad' years. The one thing was that the 10 per cent. did not consist exclusively of fairly brief spells of unemployment between jobs, but included an uncomfortably high proportion of long-term unemployment in certain specially 'distressed areas.' These were areas which depended largely on a few industries—coal, cotton, shipbuilding,

steel, and one or two others—which had persistently high rates of unemployment even in 'good' years. Something had gone badly wrong with these industries and with the districts that depended on them; and it could not be denied that they constituted a problem demanding special attention. At first, the Government attempted mainly to draw workers out of them by 'industrial transference' to more prosperous areas—in effect, leaving the areas to their depression, while trying to make it less burdensome by removing part of the labour 'surplus.' Later, when this policy had manifestly failed, a half-hearted attempt was made to attract new industries into the depressed areas, chiefly by founding Industrial Trading Estates, on which firms were encouraged to settle by the offer of factories to rent on favourable terms and other small advantages. This policy was good as far as it went; but it was attempted only in a few places and on a very small scale. Not till armament orders began to flow into the depressed areas was anything effective done to get the main body of their 'surplus' workers back into employment.

This problem of the distressed areas—called by the Government 'special areas,' as if that could make their plight less distressing—was always treated as a quite particular case, standing apart from the main problem of unemployment. As we shall see later, this attitude was radically wrong; for the position of the distressed areas was only a symptom of a disease from which British industry was suffering over a much wider field. But there was no willingness in orthodox circles to admit this, because the admission would have opened the door wide to public intervention in industry with the object of putting matters right. Attention was focused on the fluctuations of employment between 'good' and 'bad' years—that is to say, on the phenomenon known to economists by the name of 'the Trade Cycle.'

Unemployment and the State

I propose to defer until later any account of the various explanations of the Trade Cycle that have been put forward. The changed attitude of many economists during the past dozen years towards employment policy turns, not on any particular explanation of the cycle, but on a more careful study of the actual course of events as economic activity goes up and down. The writings of Lord Keynes, which have revolutionised academic thinking on the whole question, do not so much explain industrial fluctuations as make proposals for offsetting or even preventing them by timely public action. So deep an impression has this Keynesian approach made that to-day few

economists would deny that the State can and should accept responsibility for maintaining employment at a satisfactory level. Only a few hold that, in doing this, the State would of necessity be upsetting the beneficent working of the system of private enterprise. There are, no doubt, still a few professional economists and many more individualistic business men who cling to the old notions of *laissez-faire* and even exaggerate them now they are under wider challenge; but these reactionaries have lost their title to orthodoxy and have taken to giving themselves the air of men ready to die in the last ditch for the grand old cause of property rights.

In the General Election of 1929, when the Labour Party and Lloyd George were alike maintaining the State's duty to embark on a crusade against unemployment, the Treasury, on behalf of the Government, issued a memorandum in which it proclaimed unequivocally that State action could do nothing to increase the volume of employment and that any employment provided by the State would merely reduce by the same amount that provided by private enterprise. By way of contrast, the Churchill Government issued in 1944 a White Paper on Employment Policy, in which it stated in so many words that "the Government accept as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war." In my opinion, the measures which were outlined in the White Paper for carrying out this object were quite inadequate; but that does not alter the fact that even the Churchill Government accepted the responsibility, and officially and categorically repudiated what had always previously been regarded as the established 'Treasury doctrine.'

In subsequent chapters we shall have to see what this new policy, of State action to keep employment steadily and consistently high, involves in terms of practical measures of public economic control. Here we need observe only how fundamental is the revolution of attitude and doctrine implied in it. Our forefathers of the nineteenth century mostly regarded politics and economics as two separate systems which touched only at a very few points and ought as far as possible to be kept apart. They were driven to admit, grudgingly, the necessity of Factory Acts to protect the conditions of children's and women's labour, and of a few other special interferences with the 'right' of the owner of property to use it as he pleased for the exploitation of his fellow men. In general, they relied on an 'unseen hand' of providence to make sure that each man in pursuing his own self-interest in economic matters would somehow mysteriously be

furthering the common interests. They did not believe that selfishness outside the economic sphere had these beneficent results: none of them, as far as I am aware, ever argued that a father who regularly ate up his children's dinners would, by the inscrutable ways of providence, be doing his best for them. But quite virtuous persons did believe in all honesty that this paradoxical principle held good in the world of business, including that of the relations between Capital and Labour as well as that of the market for goods. Why this view was ever held it would take too long to enquire here: the point is that it was held, but is held no longer save by obstinate and indurate reactionaries.

As soon as this view is given up, the main reason for telling the State to keep its hands off business disappears. That business men are apt to behave selfishly, and indeed must do so in order to survive, pretty much to the extent to which their competitors are allowed to do so, nobody denies; but as soon as people stop believing that this selfishness is really for the good of all, it becomes evident that the State ought to step in to check it, when it produces evil consequences, just as much as it ought to step in to prevent a father from starving or seriously maltreating his children. It remains open to argument at what precise point, or precisely how far, the State will be wise to intervene; but the argument against intervention on grounds of abstract principle simply goes by the board. It has gone by the board now, in this matter of the State's responsibility for preventing unemployment.

Let me repeat. The experience of the decades between the wars taught us convincingly that the consequences of not trying to cure unemployment, but merely keeping the unemployed wretchedly alive on benefits and doles, were altogether intolerable. They were humanly intolerable, because the policy of 'doles' meant condemning hundreds of thousands of good workmen and even millions dependent on them to subsist wretchedly, eating their hearts out in a sense of uselessness and futility, and finding palliation only when sensitiveness and manhood died out in them after hope was gone. They were humanly intolerable, because the policy meant letting young men and women grow up in the distressed areas without ever a chance of learning a trade or getting the basis for self-respecting lives, because it meant undernourished children and shabby, shambling parents, living in decayed towns and villages which had ceased to be possible centres for a vigorous community spirit. They were economically intolerable, because the policy meant wasting, year in and year out, never less than one-tenth of the community's

productive power, and at times upwards of one-fifth, despite the obvious need for all, and more than all, that the unused labour could have been employed to produce.

Full Employment

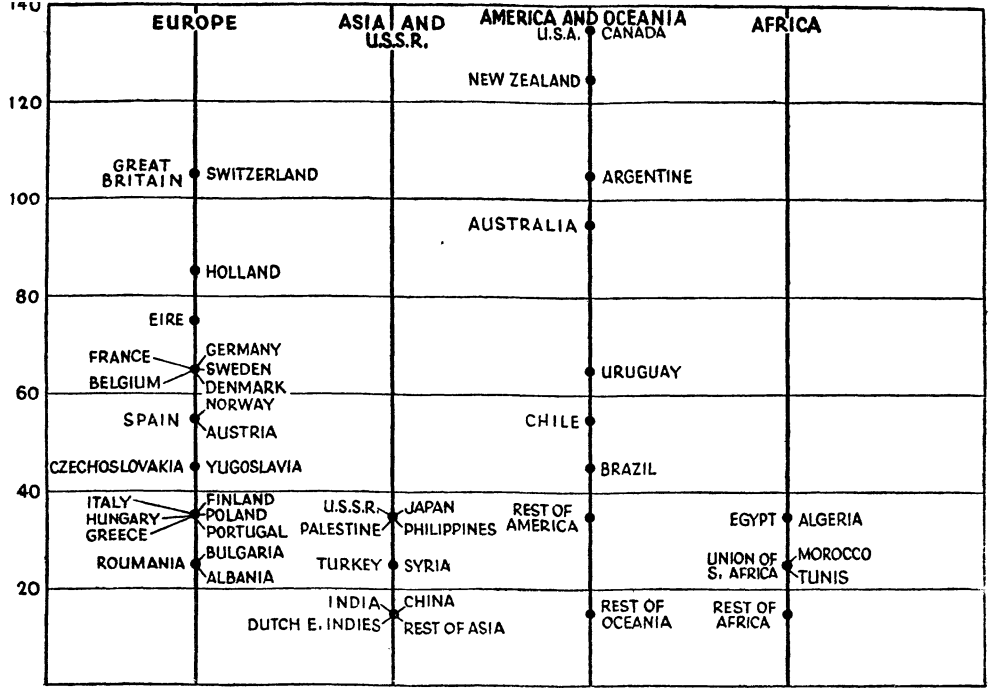
We have learnt that these things are intolerable; and even the individuals who have not learnt this have learnt at least that they will not be tolerated by others. Accordingly, *any* Government must at least profess its will to make an end of them, and no Government dare now deny that it is responsible for preventing their recurrence. Lip-service, however, is not action; and we have still to see how far those who promise action are prepared to go. Many of the supporters of the Churchill Government's White Paper hoped that, if they did only a little, they would be allowed to get away with it on the ground of having done their best. There were many signs of this hope in the text of the Government's White Paper on Employment Policy, to which I have already referred. It was there argued that the State's power to maintain employment might be found to exist only if "the necessary expansion of our external trade can be assured"; and there was more than one reference to the great difficulty of carrying through even the mild measures which were outlined. We shall have to ask, later in this book, how far the success of a policy of 'Full Employment' need depend on a high level of foreign trade, and how real the other 'difficulties' apprehended by the Coalition Government at the time of the White Paper truly are. For the moment let us concentrate on this one point. Unemployment is not, as we used to be told it was, something which the State can do nothing to prevent. On the contrary, as we shall see, public policy can be, and should be, the main means of ensuring that production is as high as it can reasonably be and that there are jobs available for all who need them.

CHAPTER II

OURSELVES AND THE WORLD

THERE NEED BE, and there ought to be, no unemployment problem in Great Britain—or indeed anywhere in the world. There is so much that needs doing that there should be in peace, as there was in war, everywhere a shortage of workers and a necessity to postpone some tasks in order to get the most urgent things done first. There ought to be, for a long time to come, continuous 'full employment' over the whole earth, partly in order to make good quickly the devastation wrought by war, but much more in order to lift the peoples of the world out of the conditions of poverty in which the great majority of them have existed hitherto. We in Great Britain had little enough cause before the war to be proud of our own standards of living. Yet we were, in terms of average standards, among the world's top-most 10 per cent. Only three countries in the world—the United States, Canada, and New Zealand—stood higher than Great Britain in productivity per head of population; and these three had between them only about 6½ per cent.. of the human race. Another 3½ per cent., including the people of Great Britain, were at or near the British level—making so far 10 per cent. in all. The remaining 90 per cent. of the world's inhabitants were definitely below the British standard of productivity. Indeed, only another 8½ per cent., nearly all in Europe, reached even one-half of the British standard. Eighty per cent. of the human race lived in countries in which the level of productivity was lower still—about 22 per cent. of them in countries where the average level was about one-third of the British, and nearly 60 per cent. in countries where it was near or below one-quarter.

These proportions take no account of the ways in which wealth and income were distributed in the various countries. They are based on the attempt, made by Mr. Colin Clark in his book, *The Conditions of Economic Progress*, to apply a common measure to the productivity of all countries, without regard to the distribution of the product. It could, however, make little difference to the broad conclusion even if the inequalities of distribution were taken into account. Everywhere the poor are many and the rich few; and the standards of living of the great majority



STANDARDS OF PRODUCTIVITY IN VARIOUS COUNTRIES.

Colin Clark's Estimates (about 1930). Standard in Great Britain = 100–110.

NUMBERS AND PERCENTAGES OF WORLD POPULATION LIVING IN COUNTRIES IN WHICH THE NATIONAL INCOME PER HEAD IS AT VARIOUS LEVELS (PRE-1939 ESTIMATES)

(Based on figures given by Colin Clark in *The Conditions of Economic Progress*)

Numbers (millions)

	Above	*The same or near*	*At or near ½*	*At or near ½*	*At or near ¼*	*Below ¼*
	Relation to British income per head					
Europe (excluding U.S.S.R.)		52	177	146	30	—
U.S.S.R. (in Europe and Asia)				172		
Asia (excluding U.S.S.R.)	—	—	—	90	22	1,042
Africa	—	—	—	24	20	114
North America	143	—	—	—	—	—
Latin America	—	13	7	41	69	—
Oceania	1½	7	—	½	—	2
Total	144½	72	184	473½	141	1,158

Percentages (approximate)

Europe		5	432	35	12	
U.S.S.R.	—	—	—	100	—	—
Asia	—	—	—	8	2	90
Africa	—	—	—	15	13	72
North America	100	—	—	—	—	—
Latin America	—	10	5½	31½	53	—
Oceania	13½	64	—	4½	—	18
Total	6½	3½	8½		6½	58

depend unavoidably on the general level of productivity in each country. The American standard of living is high, and the Chinese standard desperately low, not because income is better distributed in the United States, but mainly because production per head is immensely greater. Even the vast improvements made in the distribution of wealth in the Soviet Union have not so far prevented the Soviet peoples from remaining poor, because Soviet productivity is still low, though in recent years it has been improving very fast.

Knowing what we know by experience of our own conditions, we are in a position to realise what the prevailing poverty means in countries which are very much worse off than we are. Make all the allowances you please for different conditions of living in tropical climates, or for the different needs of peasants who are altogether without experience of the life of towns and of the habits of living in advanced industrial countries. Discount as heavily as you please the conclusions derived from the merely statistical evidence. I am not asking anyone to believe that because the average level of productivity per head in India and

China is less that one-fifth of the average level in Great Britain, the average Indian or Chinaman is five times as miserable as the average Englishman. Such an assertion would have no meaning. What I am saying is that the level of productivity over nearly all the world is obviously much too low to yield to more than a tiny fraction of the inhabitants a decent or humanly tolerable standard of life.

Productivity in Europe

But most of these people, someone perhaps urges, are only 'niggers' or 'coloured folk' of one sort or another, and not like ourselves. I might answer: Are they so unlike that we can ignore their needs? But let that pass: let us leave aside for the moment (but for the moment only) everyone who does not live in our own continent—Europe. Let us leave out the Americans, among whom alone are found higher standards than ours, the Asiatics, the Africans, and the peoples of Oceania. And let us, for the moment, leave out the Soviet Union as well, because it straddles over Asia as well as Europe. There remain, on the basis of 1939 populations, about 405 million persons, including our own 48 millions in Great Britain. One continental country—Switzerland—has about the same productivity per head as we have. All the rest fall short. The Dutch approach our level: the Irish fall short of it by about a quarter. In France, Belgium, Sweden, Denmark, and pre-Nazi Germany average productivity was, between the wars, about two-thirds of ours. In Norway, Austria and Spain it was probably above one-half. In Czechoslovakia and Yugoslavia it was under one-half, and in Italy, Portugal, Greece, Hungary, Poland and Finland about one-third. Finally, in Roumania and Bulgaria it was certainly not more than one-quarter; and yet productivity per head even in these countries was considerably higher than it was among most of the peoples of Asia and Africa. In all, in Europe about 13 per cent. of the people were living at or near the British standard: about 43 to 44 per cent. were living at or near half that standard, and 45 to 46 per cent. were living at less than half that standard.

Of course, those who lived at the lower standards were mainly peasants, in predominantly peasant countries. They lived, some of them, still on great estates belonging to wealthy aristocratic landlords, as in Hungary and Eastern Germany, but many more of them on exiguous peasant holdings, on which they were crowded together more and more as population rapidly increased. Their standards of cultivation were in most cases wretchedly low, and even in many cases getting worse. They had mostly no more

than the most primitive farm implements: many of them were continually, and most of them intermittently, short of water and exposed to actual famine when crops failed. Very few of them had access to any sort of mechanical or electrical power; and the vast majority were badly handicapped by lack of means of transporting their produce to market. There were few railways near them—even few tolerable roads. Most of them had no reserves of money: very many of them were in debt. Even if they had known how to improve their standards of farming, as most of them did not, they could not, save exceptionally, have used their knowledge; for better farming means applying capital to the land, and they had none to apply. That is why the break-up of the great estates which occurred over much of Europe after the first World War on the whole worsened, instead of raising, agricultural standards. There were some improving landlords among the old proprietors—though there were many who did nothing but screw the last penny out of their dependants: the peasants who got the land, often on onerous terms of compensation to the former owners, had no resources to devote to improving it.

Moreover, the farms were over-peopled. There was more labour on them than could be used to advantage, even in the absence of any sort of mechanical appliance; and the very plenty of labour stood in the way of the resort to better methods. Economists call the situation which came to exist over a large part of peasant Europe 'concealed unemployment.' Perhaps no one was unemployed in the ordinary sense of the term; but, as we have seen, many workers could have been taken away from the land without any adverse effect—perhaps even with favourable effect—on total output. Three workers could have done better what four, or even five, were doing ill. But there was nowhere for the surplus population to go. Emigration had almost ceased, largely as a consequence of the restrictions imposed on immigration into the United States and other developing countries; and there were, in the poor countries, no industries capable of absorbing the redundant population of the rural areas. Industry in these countries was slow in developing; and where it did develop, often under foreign auspices, it was apt to take the form of extraction of minerals needed by foreign capitalists, or of producing goods for export or for the small class of wealthy consumers, rather than of mass-production of cheap goods which the ordinary inhabitants could afford to buy. New industries set up in backward countries unused to factory labour were almost bound, in the early stages, to be a good deal less efficient than the industries of the advanced countries; and

it did not seem to be a paying proposition to develop them. Nor could it be, on a sufficient scale, unless at the same time steps could be taken to widen the market by increasing the purchasing power of the main body of the peasants. The two things—agricultural and industrial advance—had to go together: neither could be achieved by itself.

The Needs of the Backward Countries

What these backward countries needed to lift them out of their primary poverty was, so far, exactly the same thing as was needed for raising further the standard of living in the countries that were already more advanced. They needed 'full employment,' pursued as a national policy in each country, adapted to suit each country's special conditions, and adjusted to fit in with what was being done in neighbouring areas. The essence of a policy of full employment is that the State makes itself responsible for securing that there shall be no shortage of jobs. In advanced industrial countries this involves that the State shall see to it that the demand for goods and services, of all sorts, adds up to a big enough total to set all the available resources to work. The State can do this either by stimulating the production of 'capital goods,' such as railways, roads, power-stations, waterworks, factories, ships, docks and harbours, and so on, or of 'durable consumers' goods,' such as houses, or by putting into the pockets of the poorer people the means of buying more food, clothing, and other non-durable 'consumers' goods.' Of course, it is of no use to give people the money to buy more goods and services than can be made available for their use (for the effect could only be to force up prices): nor is it desirable to embark on projects of capital construction which are beyond a country's powers. What can be done is to see to it that no productive resources that are available are allowed to be left unused.

The principal limit on the power of a backward country to apply its resources to economic development and to raising the standard of living among its people is the extent of its dependence on more advanced countries for machinery, for materials which it does not produce at home, and for a wide range of consumers' goods. If it sets out to develop big capital works, such as railways, power-stations, harbours, or factories, or to improve its land by irrigation works, it must import nearly all the plant and must also bring in technicians and skilled workers from abroad. Even if native workers are employed for all except the most highly specialised jobs, these workers will spend their wages in such a way as to increase the demand for imported commodities; and

unless the country is able to increase its exports so as to balance these demands—which it is not likely to be able to do in the short run—there will come a strain on its foreign exchanges—that is, on its means of paying in foreign money for imported goods—which may threaten to bring the entire policy of development to a stop. That is why backward countries in process of economic development usually need to borrow capital abroad and use the borrowed money to pay for the excess of imports. As we shall see, any large-scale policy of economic development in the backward countries needs, if it is to be accomplished without very great difficulties, the aid of foreign capital. If no such aid is to be had, development is not impossible; but the pace is bound to be much slower, and there is no avoiding the necessity of imposing severe restrictions on the bringing in of imports which are not indispensable for the execution of the plan. The foreign exchange procured by the sale of exports has then to be reserved for buying goods which are required for the plan, i.e. capital goods which cannot be made in the country and other really indispensable imports—and none can be spared for buying imported consumers' goods that are not sheerly indispensable, however insistent the money demand for them may be. The Soviet Union had to carry through its prodigious scheme of economic development in this way, reserving all the available foreign exchange for purchases of capital goods and bidding consumers go short for the time being in the expectation of a rapid rise in standards of living as soon as the pains of the transition were at an end.

Naturally, a Socialist country was at a great advantage in following such a policy. In most of the backward areas, the classes in power would strongly resist the cutting off of luxury imports, of which they are the principal consumers, in order to concentrate purchasing power in foreign markets on the goods required for the development plan. The richer classes in the backward countries are far more parasitic and feudal in outlook than the capitalists of the advanced countries. They like cheap labour, which allows them to keep hordes of useless retainers; and they claim a right to buy imported luxuries for their own consumption. Many of them regard industrial development, with its corollary of higher wages, as a threat to their feudal privileges, and would be altogether unwilling to see their countries enriched by methods which would upset their traditional ways of living. The thorough-going industrialisation of Russia could never have been carried through under Tsarism: the overthrow of the old ruling classes was an essential pre-condition of success. It is, however, also true that it needed the stiffening of an industrial

proletariat to lead the peasants in the overthrow of Tsarism, and to lay the foundations of the new economic system. Foreign capitalism in Tsarist Russia acted, willy-nilly, as the forerunner of the revolution; and other predominantly peasant States which embark on economic development need similarly the stiffening of a body of industrial workers before they can be ready to face the ordeal of carrying the process through without the aid of capital from abroad. Perhaps the Russians, when they have had time to rebuild their own war-shattered economy, will be able to help them in this way, with skilled workers and technicians to train them, if the capitalist countries refuse aid on tolerable terms.

If foreign capital can be made available, on reasonable terms, the situation is somewhat different. It remains true that the feudal classes, to the extent to which they retain power or influence, will be likely to obstruct the process as making for their own supersession; but their power to obstruct it will be less, and they will be able to enlist much scantier support. The middle classes, and even the members of the upper classes who are not themselves direct beneficiaries of the feudal system, will tend to take the opposite side, and to look to the increase of wealth which economic development is likely to bring them without immediate privation of imported luxuries. For, if the capital imports can be paid for out of loans, there will be no need to restrict, or at any rate to restrict so severely, the importation of consumers' supplies. Thus, the feudalists will tend to find themselves isolated, and will probably be forced to give way, or at any rate to compromise, in countries in which they still retain a substantial amount of political and economic power.

Such a situation, though it can make industrialisation easier, is by no means without disadvantages. The middle classes will favour economic development, but, as far as they have the power, will twist it to serve their own ends, rather than the people's. They will want to get all the profit they can out of the use of the foreign capital, over and above the interest payable to the lenders. Accordingly, they will do their best to keep down wages, and to create monopolies in their own interest, and will ally themselves with foreign capitalist groups in exploiting the resources of their countries. They will demand for themselves large rakes-off, which will seriously reduce the amounts actually applied to constructive development; and they will be governed, in selecting the lines which development is to follow, not by the needs of the people but by the prospect of the profits to be derived from one type of undertaking as against another. Hitherto, the cumulative effect of all this has been, in one country after another,

lop-sided and inadequate development. Enterprises which would have most advanced the general economic position of a country by improving the peasants' access to markets or facilitating higher farming standards have been dismissed as too venturesome and as offering too distant returns; and even in the field of manufacture, preference has usually gone to meeting the existing demands of the wealthier citizens instead of going out to create new demands by cheap production for the general body of consumers.

It is, however, possible to imagine conditions under which these limitations could be transcended. If it could be made a definite part of the policy of the Economic and Social Council attached to the new United Nations Organisation and of the International Bank which is to act in conjunction with it to plan the economic development of the backward countries, and to make international loans possible only for approved purposes which would further the raising of the standards of life in these countries; and if there were in power in these countries Governments based on popular support with a will to bend development into the right shapes, a great deal could be done. But it is useless to burke the fact that both these conditions need to be satisfied; and it would be foolish to pretend that either of them shows at present any prospect of being met. In the first place, neither American nor British capitalists, to the extent to which they are able to influence their Governments, are likely to be willing to regard the economic development of backward areas in any other light than as a means of making profitable investments or sales of goods for themselves. It may be true that they would stand to benefit most, as a class, from whatever would most speedily increase the wealth and productive power of the backward countries and would thus enlarge the total world market for their exports. But what each capitalist will think of first will be, not this total effect, but the immediate prospects of profit on the investment he is invited to make, or the immediate chances of profitable sales of the kinds of goods he is out to sell.

Unfortunately, calculations made on this basis will often run directly counter to what is needed. Industrialists and traders who have been accustomed to seek markets in the backward countries will oppose the building up of native industries which they think will compete with their own wares. Investors will prefer investments which offer the chance of high direct profits to more useful investments of which the benefits will be widely diffused, so that only a part—perhaps only a small part—of the real return will accrue to the providers of the capital. Thus, the industrialists of

Lancashire did all they could to oppose the growth of the textile industries in India and China; and in most countries there has been no readiness to finance railway building in agricultural areas, except where the return on the invested capital has been in some way government-guaranteed.

The Control of Foreign Capital

This means, in effect, that if foreign capital is to be used as an instrument for furthering the economic development of the backward countries, States and not private individuals or financial syndicates will have to be the principal lenders and will have to control in collaboration the uses to which the borrowed money is to be put. Moreover, these States will have to act, not, as in the past, as the agents of their own capitalist groups in search of maximum profits, but as members of a World Organisation with a clear human mission to fulfil. The rulers of the advanced States will have to be so convinced of the need, in the cause of world peace and world progress, to put an end to the primary poverty of the backward areas, as to subordinate direct profit-seeking to the pursuance of a common objective of world economic and social development, likely to yield on the capital embarked in it a rich indirect, but only a small direct, return. If we could look forward to having Governments of such a temper in the advanced capitalist countries—say, in Great Britain, France, and the United States—not only would the prospects of a successful crusade against world poverty be bright, but also the whole world outlook would be changed in nearly every respect.

This, however, is only the first of the two conditions of success. The second is tolerably honest, efficient, and democratic government in the backward countries themselves. None of these qualities, it must be admitted, has in the past been characteristic of such countries, which have as a rule been governed by oligarchies at once inefficient and corrupt. Whether this situation can be changed without social revolution—whether it can be changed elsewhere as it was changed in Russia, even with social revolution—no one can prove in advance; but obviously one great source of corruption would be removed if capital from abroad were to be supplied in future, not by foreign syndicates out merely for private gain, and ever-ready to bribe in pursuit of it, but under the auspices of some public international authority acting under the eye of the new World Organisation and in pursuance of a declared plan of world social and economic development. The existence of such an authority would also

make it much easier to combat inefficiency without rousing hostile nationalist feeling. As for democracy, nothing would so surely further its victory in the backward countries as its real establishment in the more advanced. Thus, here again, the two conditions turn out to be mainly one; and the key to both is to be found in the victory of democratic forces in the advanced countries.

Politics and Economics

It may appear absurd to continue to cherish hopes of effective international action in face of the experience of deadlock after deadlock at the meetings of the Foreign Ministers of the Great Powers since the end of the war. It may seem absurd, not so much because on one occasion after another fundamental differences have appeared, and important parts of the peace settlement have had to be left undecided or put off after fruitless wrangling, but even more because there has been no disposition anywhere to attempt to break the deadlock by proposals for constructive co-operation. When one Minister has insisted on one course, and another on some quite different solution, no one has ever said, "Can't we find means that will give us both what we want by agreeing to do the job that needs doing together, instead of each claiming the right to do it separately in his own way?" In the case of Trieste, something of this sort was ultimately done; but nothing of the kind has been put forward when the economic side of the settlement has been in question. It appears to have been an unspoken assumption of the discussions that, economically, the Soviet Union and the Western countries cannot collaborate in any constructive fashion. That is why proposals to treat Germany as an economic unit break down, despite the Potsdam decision that this was to be done; and this is why no real effort is made to lift the question of Western Germany (the Ruhr and the Rhineland) on to the plane of real international collaboration in making as much of its great resources as can be made without danger of enabling the Germans to re-arm. Yet I refuse to give up, without yet further evidence, all hope of the advanced countries of the world realising the necessity of working together to lift up the backward countries to a higher standard of productivity; for to give up this hope is to make against the leaders of world opinion a charge of folly and incompetence which should be put forward only on quite uncontrovertible grounds. I shall come back later to this great question, on which so much depends for advanced and backward countries alike and for the Soviet Union and for Western Europe as much as for

any part of humanity. But for the moment I am not discussing politics: I am only trying to talk plain common sense.

Knowledge Fails to Spread

In the foregoing paragraphs I have tried to set out the obstacles in the way of an effective policy of world economic development without glossing them over or indulging in wishful thinking. But now, having stated them, I hope fairly, may I come back to my essential point? For two hundred years and more the wise men of the West have been devising wonderful machines, winning fresh masteries over the forces of nature, penetrating the secrets of matter and energy, and building up complex forms of economic organisation for the exploitation of their scientific achievements. As an outcome of all this, productivity has advanced enormously in the countries which have made themselves masters of the new knowledge; and, though a good deal of the advantage of higher productivity has been cancelled by the increased complication of the art of living in great cities and a good deal more lost through faults in social organisation, there is no doubt at all that, in these countries, the standards of life have risen very greatly for the bulk of ordinary men and women. Nay, more, I venture to assert that, despite slumps and war, the average man or woman in these countries enjoyed in recent times (excepting the most recent of all) a much better chance of happiness and well-being than at any previous period in the history of the world. Yet—and here is the essential point—by far the greater part of the human race has remained to this day, if not untouched, at any rate unadvantaged by these victories over nature, and has enjoyed practically no share in the increasing productivity which they have involved. Indeed, in many countries, the standards of living have been getting worse, owing to the pressure of population in areas where no advance has been made in efficiency of production.

This, when you come to reflect upon it, is a most extraordinary thing. We have always been told that one great virtue of the system of 'free enterprise' is that it is international, and by its internationalism diffuses the benefits of the 'division of labour' over all the earth. Nothing of the sort is true. The denizen of a remote Indian or Chinese village may no doubt have come to clothe himself in a garment made of yarn spun in some mill in Lancashire, or, more likely, Shanghai or Japan. He may even have come to wear factory-woven cloth, and to have about his hut a few factory-made utensils from Birmingham or Osaka. But in his daily life as a producer he goes about his business

almost wholly unaided by any modern technique. His labour is as primitive and his product as hardly won as it would have been if James Watt had never improved the steam-engine, or if chemistry had remained as it was before Dalton or if even bicycles had never been made. It has been proved again and again that the backward countries can produce individual scientists and technicians fully capable of mastering the most advanced techniques; but whereas in the advanced countries the results of the new knowledge have been manifested in a general revolution in the arts of production, elsewhere no such thing has come about. Consequently, the world as a whole remains miserably poor despite the growth of scientific knowledge; and even in the most advanced countries material progress is held back by the limitation of markets due to the poverty of the great majority of the world's consumers.

Agricultural Standards

Agriculture is among the oldest occupations of men living in settled communities. We might expect huge disparities in productivity per head in industry, between men working with primitive hand implements and men who have become but the adjuncts of mighty aggregations of power-driven machines. In agriculture, which is still for the most part carried on, even in advanced countries, in small units and with but modest capital equipment, one might expect the differences to be relatively slight. They are, however, in fact very great. In pre-war Europe,[1] the average yield of wheat, in bushels per acre, ranged from 45 in Denmark and Holland to 15 in Roumania and 12 in the Soviet Union. It was 34 in Great Britain, and 33 in Germany, whereas in Italy it was only 22. True, yield per acre is by no means always a satisfactory measure of agricultural efficiency. On the contrary, the great prairie countries, which produce most of the wheat that enters into international trade, have all very low yields per acre, though their methods are highly efficient. The average yield in the United States before 1939 was only 10 bushels an acre; and Canada could show only 12 bushels, the Argentine about the same, and Australia 13. But this was because in these countries there was no dearth of land. Labour was expensive in comparison with land; and it therefore paid best to cultivate a large acreage lightly with little labour and much machinery, rather than to go out for a high yield on each acre tilled. To some extent, similar conditions hold good for the Soviet Union, where there is still no dearth of unoccupied land;

[1] Average yields, 1935–9.

CEREAL YIELDS IN EUROPE, 1909–13 AND 1933–7 (1909–13 = 100)

	Yield	*Output*
I. North. Sweden, Norway, Denmark, Holland	125	119
II. South-west. Spain, Portugal	105	121
III. United Kingdom and Eire	120	88
IV. France, except invaded area[1]	116	89
V. France, invaded area,[1] and Belgium	118	101
VI. Italy	134	133
VII. Germany (1923 area)	99½	92½
VIII. Austria and Bohemia	129	113½
IX. Hungary, Slovakia, Ruthenia, Transylvania	104	106½
X. Yugoslavia, Bulgaria, Roumania, Greece	99	117½
XI. Finland and Baltic States	127	138
XII. Russian Poland, Bessarabia	105	112½
Europe, continental, except Soviet Union	105	105
XIII. U.S.S.R.	127	135½
XIV. Mediterranean Africa	86	112½
XV. North America	77	83
XVI. Southern Hemisphere exporters	120	164½

[1] Invaded area, i.e. the area devastated in the first World War.

PRODUCTION AND YIELD OF WHEAT IN VARIOUS COUNTRIES

	Production, million of bushels		*Yield, bushels per acre*	
	1909–14[1]	*1936–8*	*1909–14*[1]	*1935–9*
U.S.A.	682	810	13	10
Canada	168	253	17	12
Argentine	147	257	9	12
Australia	91	164	11	13
	1,088	1,484		
Denmark	5·5	—	49	45
Holland	4·8	15	35	45
Belgium	15	—	39	40
Great Britain	58	63	32	34
Germany	149	175	36	33
France	326	295	20	23
Italy	183	265	16	22
Hungary	72	83	20	22
Bulgaria	38	60	9	21
Yugoslavia	62	90	16	18
Roumania	159	123	19	15
Soviet Union	757	1,120[2]	10	12

[1] Or nearest available years. [2] 1934–5.

but the Soviet Union has still plenty of labour as well as land, though it is steadily taking workers out of agriculture and transferring them to industry. Agricultural technique is still backward in the Soviet Union, despite the immense strides that have been made in recent years. But there it is at least advancing, whereas in most of the peasant countries it is at best standing still. No such explanation of low yields as holds good for the prairie countries, and to a smaller extent for the Soviet Union, is valid for the peasant countries of Europe, with their rapidly increasing populations pressing on scanty lands, their abundant and cheap supplies of rural labour, and their hungry mouths crying to be fed. A high yield per acre would be an inestimable benefit to them, if they could get it; but the cultivators lack both the knowledge and the material means. The scientific revolution has passed them by.

As it is with wheat, so is it with other crops. In addition, their cattle are lean kine; for how are they to be fat when men and beasts alike go short of nourishment? Like master, like beast: starvation breeds starvation, in a vicious circle from which there has seemed, up to now, no outlet for most of the human kind.

What Needs Doing

Can we not make up our minds to put an end to this absurdity, which is also the supreme tragedy of mankind—a tragedy even worse than war in its total effects, because its incidence is continuous and it is transmitted from generation to generation without surcease of suffering? War is no doubt worse, while it lasts—at any rate modern war; but the tragedy of sheer, grinding poverty is yet more pitiable, when we think in terms of the entire human race. This tragedy will not be ended without heroic measures: nor, even with heroic measures, can it be ended soon. A quarter of a century of intense effort in the Soviet Union has still left the Soviet people very poor by the standards of Western Europe, and still more by those of North America. India and China are both tougher propositions than ever Russia was: even Eastern and Southern Europe, though much more manageable, present difficulties enough. But to say that a problem is tough is no good reason for letting it alone, especially if to let it alone is to resign ourselves to giving up all prospect of a world securely peaceful and tolerably free from avoidable misery and disease. Even if we cannot achieve all we should like to see achieved, surely it is worth a concerted world effort to achieve what is manifestly within the realm of practicable economic and social policy.

Or, if we prefer to dismiss such highfalutin arguments and to consider only our own narrower self-interest, is there not still a strong case for doing what we can? We in Great Britain are continually being told that we must "export to live"—that is, that we must find buyers for enough exports to pay for the heavy imports of foodstuffs and raw materials that we must bring in if we are to eat well and to keep our industries at work. To whom, then, are we to export? It is plainly to our interest to have around us peoples of high purchasing power, able and eager to buy the kinds of goods which we, skilled in the arts of mechanical and scientific production, are best able to supply. It is useless for us to cling to our old lines—cheap textiles and high-grade coal—in the hope that these will yield us the markets we require. Other countries can produce nowadays cheaper textiles than we can; and with the steady development of substitute materials and highly mechanised production that dispenses with skilled labour, our old predominance in the cotton industry is gone past recall. Our coal, too, gets harder and more expensive to win, so that we have to look more to scientific exploitation of by-products and less to exports of raw coal. Indeed, to-day we have, despite our skill and our resources, no coal to export: we are even short of enough to meet our home needs. Of course, we must hold on to as much trade as we can in the old staple lines; but for the great increase in exports that we need now that we are no longer the world's great creditor nation we have to look elsewhere—to products which embody skill that cannot be superseded as yet by machinery worked with untrained labour.

In fact, our special competence lies in the making of metals, machinery, ships, power plant, railway rolling-stock, motor cars, aeroplanes, and other complex capital goods which call for high skill in design and execution; of quality goods for consumers who can afford something better than the cheapest—fine cotton and woollen textiles, high-class apparel and other consumers' goods, including the infinite variety of knick-knacks that people want as soon as they can afford something beyond the sheer necessaries of life. We are lost if we set out, with our relatively high standards and our special skill based on generations of experience, to cater for the needs of an impoverished world. Both the high-wage and the low-wage countries will beat us at that game—the Americans by mass-production based on their enormous home market, the Japanese (only momentarily in eclipse) and other countries of the Far East by their dexterity in putting cheap labour to the most effective use. Our way lies betwixt and between: our hope depends on the enlargement of world markets for capital goods

and consumers' goods of high quality such as only progressive countries can afford to buy.

World Trade and the Standard of Living

Where can we look for such new markets except in the countries which are now backward, but, in proportion as they can be lifted out of their primitive conditions, will become expanding markets for a wide range of both capital goods and high-grade consumers' goods which they will not be able for a long time to manufacture for themselves? In return, we can take from these countries the products of their improving agriculture—industrial materials as well as foodstuffs—and of their mines of valuable metals which we lack at home. Only such an expansion of the total world market can save us from a decline in our standards of living; for even if we increase greatly our own agricultural output we cannot live well without large imports of both foodstuffs and materials from overseas. It is to our interest, fully as much as it is to the interest of the peoples of the backward countries, that their wealth and productivity shall increase. What if they do proceed to make for themselves, as India is doing to-day, many classes of goods of which they used to buy from us as much as their poverty could afford? Anything we lose in this way will be much more than made up for by the greatly increased demand for imports that will follow surely upon an improvement in their national incomes per head. There will be pains of transition, no doubt, especially if we watch the decay of our old exports before making any comprehensive effort to replace them with goods better suited to the markets of to-morrow. It is easy to understand the feelings of a manufacturer, or of an operative, who is facing the loss of the trade by which he has lived. But it is of no use to cry over such spilt milk. We must do all we can to ease the pains of the transition; and the best way of doing this is to make all speed we can in devising new ways of meeting the world's needs.

In the period before the war (1935–8), Australia and New Zealand, with a combined population of fewer than nine millions, imported goods to a higher total value than India and Burma, with a population of nearly 400 millions. Sweden, with fewer than six and a half million people, imported more than Poland, Roumania and Yugoslavia together, with a combined population of 70 millions. Denmark, with 4 millions, imported more than China, with more than a hundred times the number of people. All the world over, the evidence is overwhelming that high imports go with a high standard of life, and that, so far from the

industrial development of a primitive country spoiling it as a market for the products of the advanced industrial nations, the very reverse is the case.

IMPORTS INTO CERTAIN COUNTRIES IN RELATION TO POPULATION, 1935–8

In old gold dollars (millions)

	Australia	*New Zealand*	*Total*	*India and Burma*	*Sweden*	*Poland*	*Roumania*	*Yugoslavia*	*Total*	*Denmark*	*China*
1935	226	83	309	294	222	97	58	49	204	167	200
1936	256	103	359	272	247	112	55	54	221	189	165
1937	297	131	428	414	320	141	87	70	298	218	165
1938	305	127	432	370	307	146	80	67	293	211	154
	1,084	444	1,528	1,350	1,096	496	280	240	1,016	785	684
Population (millions)	7	1½	8½	400	6	35	20	16	71	4	450

National Self-sufficiency

It is entirely natural that this should be so. It is no doubt possible for a very large country, if it is possessed of a great diversity of soils and climates and of raw materials needed for every sort of industry, to organise its economic life on the basis of a high degree of self-sufficiency, and to reduce its foreign trade within narrow limits. This, however, is quite out of the question for smaller countries, or even for very large countries which lack the requisite diversity of home supplies. A small country always, and a large country throughout the earlier stages of development, must specialise; for on no other terms can it achieve efficiency, which in many branches of production depends on large-scale methods. A small country, for example, cannot produce motor cars economically for its home market; nor can it undertake the production of more than a quite small proportion of the wide variety of goods which its consumers will demand. In order to live well, it must export goods which it is well equipped to produce, and thus get the means of paying for a wide range of imports. This holds good for every small country which has advanced beyond a low peasant standard of living.

For a big country—big in both territory and population—the conditions are somewhat different. Such a country, if it possesses the requisite diversity of natural resources, can aim in the long run at an all-round development based on the idea of a near approach to self-sufficiency. But for a backward country to attempt this, in the short run, involves enormous disadvantages,

and means the infliction of great temporary hardships upon its people. The Russians had to face these hardships, because their attempt to construct a Socialist society in a world dominated by capitalism both made it impossible for them to command any large quantity of imports and rendered it imperative for them to aim at self-sufficiency in the interests of national defence. If these conditions had not existed, it would have been much easier for them to aim at a less wide diversity of industrial development, and to rely on paying with exports for the imports which the narrowing of their own productive plans would have made indispensable—or, indeed, to meet part of the cost of imports out of foreign loans. In practice, if such a course had been possible without jeopardy to the Socialist revolution, the citizens of the Soviet Union would not have been forced to go nearly so short as they did go of essential consumers' goods.

The Soviet Union is probably better placed than any other country in the world—even the United States—for following a policy of economic self-sufficiency: so wide is the range of climate and of natural resources of which it stands possessed. It would be impossible for India or China, with their much denser populations, to reproduce the achievements of the Soviet Five Year Plans, or to carry through large-scale industrialisation at anything like the same pace without extensive help from abroad. Practicable plans of economic development for India and China will have to take the form, not of self-sufficiency, but of marking out for rapid advancement certain chosen lines of agricultural and industrial production and of aiming at producing enough in some of these lines to pay for rapidly increasing imports of goods which cannot be so easily made at home. These requirements could be met best by some sort of international planning which could give them assured markets for certain products in exchange for their readiness to purchase abroad supplies of goods which they would abstain from making. It would not be difficult, given the will among the nations, to arrive at a fair arrangement, and to work out lines of development which would at the same time provide for a rapid advance of productive efficiency in the backward countries and ensure a great expansion of their international trade.

The Need for International Planning

The great obstacle in the way of such arrangements, on the side of the advanced capitalist countries, is that the policy of their governing classes is apt to be based on a fundamental inconsistency. On the one hand, the directors of their leading

industries are always seeking additional markets in order to expand the scale of production; and on the other hand every group of industrialists within their frontiers clamours for protection against competitive imports. It is easy enough to demonstrate that it is impossible to expand *total* exports without at the same time either admitting additional imports or making capital loans to cover the excess. The trouble is that there is no way either of securing that such loans shall be made in the required amounts or of disarming the opposition to letting in additional imports. Obviously, no country can pay for what it imports except with exports,[1] and it is also obvious that, even if the gap can be temporarily bridged by borrowing, the interest charges—and still more obviously any repayment of capital—can be met only by means of *additional* exports. Even though this evident truth may be accepted in theory, countries such as the United States have continued in practice to attempt year after year to expand their exports without receiving additional imports in exchange, and have remained unwilling to strike bargains with the countries in need of economic development where *any* domestic vested interest has seen itself threatened either with a loss of foreign markets or with foreign competition in the home market in any line of goods.

Only a recognition of the need for some sort of international economic planning, based on the principle of expanding total world production and of raising standards of life in the backward areas, can overcome these obstacles. Yet it is greatly to the interest of all classes in the advanced countries that they shall be overcome; for there is no other way of transcending the limitations of the capitalist market or of securing the professed object of the advocates of free international enterprise—the enlargement of the total market on the basis of the international division of labour.[2]

If self-sufficiency is out of the question as the objective of any practicable plan of economic development for such vast areas as India and China, it is even more obviously excluded as the basis on which development can proceed in the backward parts of Europe. Such countries as Poland, Yugoslavia and Bulgaria can be economically developed only on a basis of specialisation. If they were to set out to produce for themselves a wide range of

[1] Including, of course, 'exports' of services, as well as goods. *See* pp. 449ff.

[2] By the international division of labour is meant a state of affairs in which each area of the world specialises in producing what it can produce at the lowest real cost in human effort and receives in exchange for its surplus of goods so produced the equivalent products of other areas.

miscellaneous products, they would stand no chance of being able to produce at reasonable costs, and, so far from achieving an improvement in their general standards of living, they would only further impoverish their peasant populations by compelling them to buy expensive (and probably shoddy) industrial products, or to go without. The first place in effective plans of economic development for these countries must be given to improvement in standards of agricultural production, transport and marketing. Manufacturing development is also necessary; but it must be concentrated upon those products which can be cheaply mass-produced to meet a large and expansible home demand, and there must be a careful avoidance of favours to home industries which can be fostered only by means of expensive subsidies to high-cost producers or of licence to charge exorbitant prices. The worst enemy of world economic advancement is that form of Economic Nationalism which, aiming at the encouragement of any sort of home manufacture as against imports, results in the stimulation and protection of inefficient vested interests in each petty market and impoverishes, where a better policy would enrich, the common people.

I have set these international considerations in the forefront of my argument because it is impossible to work out a satisfactory home policy of full employment without considering how it ought to be fitted in with corresponding policies in the rest of the world. For ourselves and for other advanced industrial countries the problem presents itself, first and foremost, as that of abolishing unemployment, which is the scourge most present to our consciousness as a result of our experience between the wars. Unemployment, however, is not really the disease: it is the symptom. In the less developed parts of the world the same disease shows different symptoms. In Poland or Roumania, in India or in China, the outstanding economic misfortune has been not unemployment but peasant poverty and the crowding of rural population on uneconomic holdings. This 'concealed unemployment'[1] and the type of unemployment with which we in Great Britain are familiar are both symptoms of the failure to organise the world's economic resources for the effective satisfaction of human needs. They are alike results of a failure to plan—of a reliance on what is miscalled 'free enterprise' to bring about maximum production of wealth and of a refusal to recognise that what 'free enterprise' means in practice is the universal dominance of an unenlightened self-seeking which, in its constant pursuit of sectional advantages, defeats its own ends. The outcome of this

[1] *See* p. 59.

policy, or lack of policy, is the entrenchment in some quarters of restrictive monopolies masquerading in the cloak of freedom, and in others the dereliction of vast resources which it suits the book of no sufficiently powerful interest to exploit.

The objective of economic policy needs to be re-stated in essentially different terms. The object we should be pursuing, all the world over, is the greatest possible expansion of output in the interests of the general body of consumers, in such a way that nowhere will usable resources, human or material, be left unused, or knowledge and the means of applying it be held back from any section of the human race. Within the framework of such an objective, we could set out to plan sensibly our own ways of economic organisation and development, and our own policies of full employment for our own people. If, on the other hand, we set out to plan for full employment at home without these wider, world considerations in mind, we shall both fail to achieve the higher standards of living which we are seeking for ourselves and, in failing to help other peoples to improve their condition, be sowing surely the seeds of future wars.

CHAPTER III

THE TASKS BEFORE US

ONE DAY, NOT SO LONG before the outbreak of the second World War, I was standing on the soil of France. I had been travelling through fertile country: earlier in the day I had fed nobly at the table of a farmer and had drunk the admirable wine grown on his own vineyard. But now I had come to a land where nothing grew save a few shrubs and here and there a few hardy weeds. All around me the land was dead—a waste of grey holes and hummocks lying cold under the afternoon sky. Just in front of me was one of these holes; and in it were still lying, till some souvenir-seeker should come to carry them away, a battered tin hat and a rusty bayonet—relics of the time that had brought the land to its doom. Here, month after month and year after year, had the 'war of attrition' been fought when I was young; and twenty years had not availed to restore this sorry stretch of ground to the uses of man. The surface soil had been blasted away: the undersoil had been churned up by shells and entrenchments. There remained only a lifeless waste where no crops would grow. As I stood there, I said to myself, 'This is war'; and then I bethought me of the vast dust-bowls of America, the lost cities of Arabia and Northern Africa, the deforested and denuded wastes of Central China, and I reminded myself that man could desolate his heritage in peace as well as in war, and that the 'making of solitude' has been no monopoly of the war-makers, either in recent history or back in man's chequered past. I did not say to myself then, but I did later, 'How much of Europe will be like this if there is another war?'

How much will, in twenty years' time from now? We have had our second World War; and now it is time to begin counting the cost. War, as we moderns have learnt to wage it, is spectacular in its destructive force. With artillery, with rocket-projectiles, and with bombing aircraft, and at the last with atomic bombs upon cities teeming with people, we have mastered the art of raining down destruction on a scale that is sheerly terrific. From Guernica, where the Nazis staged their dress-rehearsal, to Stalingrad and to certain districts of London and other English towns the horror has passed to who knows how many cities of Germany, upon which has fallen the retribution for the Nazis' misdeeds. The ruined industries of the Ukraine and of the Ruhr bear witness to

this appalling power. Burst dams, flooded country, broken power-stations, coal-mines filled with water, as well as ruined towns and burnt-out villages mark the tracks of receding armies which have 'scorched' the earth when they could no longer hold it as masters. The dykes have been thrown down in Holland, the harbour works blasted from Sevastopol to the Atlantic coast. Oil-wells and coal-mines have been set burning; forests have been fired; bridges and viaducts have been broken; canals destroyed; ships torpedoed or bombed and left to burn. From end to end of Europe the reek of destruction has risen up.

Men, women and children, as well as things, have been offered up for sacrifice on this altar which is the world. And yet it is astonishing how human beings have lived on amid the ruins, save where deliberate mass-murder has entered into the destroyers' plan. Even the Poles are still a people, though among them mass-murder has played a ghastly role. There are still Germans, to constitute a 'German problem,' even where the bombs have fallen thickest by Ruhr and Rhine. To shattered towns, villages and steadings all over Europe the people have been coming back —except where they have not been allowed to come back. In city and country they have been seeking the means to re-build their lives. How great a task awaits them? How great a task, let us enquire first, in a purely material sense?

I do not profess yet to be able to number the returning people, or to count the slain. Nor do I profess to be able to add up the bill of physical destruction, so as to say how much the Nazis would owe us in reparations—if they could meet the account. In neither case do I know, nor can anyone yet fully know, the facts. But we do know enough to get some impression of the character and scale of the problem that is now being faced—or not faced, where, as in Germany itself, the means of facing it are not in the people's hands.

The destruction is vast—that is plain enough. But how much of it is irreparable, on the basis of our existing knowledge or because the task of restoration would be so immense in relation to the possible results as to be clearly not worth while? The loss of life, indeed, is absolute; and so are the maiming of body and twisting of mind and the distorted age-structure of peoples that have lost a large part of the best of their potential leaders and workers. But in material terms, it is reasonable to hope, the losses are mainly of such a kind as can be made good, given time and, what are no less needed, energy and goodwill in facing the tasks of reconstruction. It is astonishing but true that, despite all the blasting and scorching and flooding and laying waste, there

is little that is comparable, in its lasting effects, with what man has done in peace in the dust-bowls of America or with the murdered earth I saw about me that day on one of the derelict battlefields men fought over continually, year after year, during the first World War.

What men have built and battered down men can rebuild. The reconstruction of all the blasted cities, villages, farmsteads, bridges, ports, dams, power-stations, and other edifices that have been burnt or blasted may be a labour of Hercules, but it is a labour which men know tolerably well how to set about. There is nothing impossible in it, beyond the sheer magnitude of the operations it requires. It must take time—considerable time—and faith; for without reasonable faith in the future much of it may seem not worth the effort. But, in time, men can do it, if they have but the faith and the persistence to tackle the job. Nay, more: they have the capacity, not merely to rebuild, but to build all much better and more serviceable than it was. What man cannot do, with his present knowledge, or at any rate cannot yet do without effort disproportionate to the result, is to restore fertility where the soil is gone, or bid the man-made desert blossom as the rose.

The Two Wars

What I saw in France was the outcome of the 'war of attrition' —of years of trench warfare, with hardly a shift of the lines. It is such warfare that leaves the land ruined irreparably, or at least beyond present renovation—just as it has been left elsewhere by men's thriftless abuse of the powers of nature. The second World War, in comparison with the first, was a war of movement. In many ways it was even more destructive; but it has, I hope and believe, borne more hardly, in the realm of things, on man-made than on natural wealth. Gigantic as the tasks of reconstruction are, they are for the most part but doing over again what men have already shown their capacity to do. The main difference is that there are such hosts of things needing to be done at once, and done by men who are tired and, after spending years of feverish energy in pulling things down, may run short of the energy and the courage that are needed for building them anew.

The difficulties are formidable; but they are mainly economic and political, not natural or essentially superhuman. State the problem, provisionally, in purely economic terms, and state it for Europe, though of course it exists for Asia on a hardly less formidable scale. Europe, with depleted man-power, will have to accomplish a double task—to provide simultaneously for its

immediate necessities and for its future. It needs to 'invest' in new instruments of production on an unprecedented scale, and at the same time to provide for the needs of current consumption. Of course, up to a point, this need to invest as well as to consume, and to do both out of the current output of the people, is nothing new; for capital resources could never have accumulated unless the peoples, or some of them, had consumed less than they produced. What is new is the scale on which investment is urgently required; for the peoples of Europe—to say nothing of the rest of the world—are now facing the need, not merely to make good the annual wastage of means of production and to set aside a small surplus to provide for rising population and an improving standard of living, but also to make good the enormous destruction of past accumulations which war has brought about, and even, over and above all this, one hopes, to help the backward areas, in which there was too little capital equipment before the war, to raise their standards and to take their place, as economic equals, in a new comity of peoples.

What Happened in Russia

In more than one respect the task which faces all Europe is singularly like that which faced Russia on the morrow of the Revolution. In the Russia of 1918 the old economic order had broken down utterly. The output of industry had been reduced to a mere fraction of pre-war output. The transport system was in chaos. Even agricultural output had fallen sharply, and the slaughter of livestock had been, and was still, proceeding at a disastrous pace. It has been estimated that by 1920 the industrial production of the territory of the Soviet Union had fallen to less than one-fifth of what it had been in 1913. The following year, when over vast areas the crops failed and livestock were killed off by millions, there was famine in many parts of the countryside as well as in the towns, and on all hands the impending downfall of the Bolsheviks and the dissolution of all Russia into sheer chaos were confidently foretold. The tasks facing the peoples of the Soviet Union seemed more than men could attempt: death from starvation confronted many millions. Yet out of this abyss the Soviet peoples climbed, not without terrible suffering, but intact as a community and with strength and hope renewed. What was done in revolutionary Russia can be done in Europe—but not without resolution and courageous leadership or without united effort. Whether it can be done with less suffering will depend, not only on the unity and resolution of the peoples of Europe, but also on the help they and others who are

in a like distress get from those parts of the world which are in a position to come to their aid.

The problem that faces us now is, of course, upon a far greater scale. It involves all Europe, including the Soviet Union; and there are parallel problems in the Far and Middle East and in Africa to be faced at the same time. In Europe alone it is a problem, in terms of pre-war population, of a quarter of all the world's inhabitants, and of the most densely populated of the world's continents. Europe, without the Soviet Union, held in 1939 about 18½ per cent. of the world's men and women, crowded upon 4 per cent. of the world's land surface; whereas the Soviet Union had 16 per cent. of the land area, and but 8 per cent. of the world's people.

The World and Its Peoples

The world in 1939, just before the outbreak of war, had about 2,170 million inhabitants, among whom the people of the United Kingdom accounted for fewer than 2 per cent. Considerably more than half the total population lived in Asia, where two great countries—China and India—with their dependencies contained nearly 40 per cent. of the world's inhabitants. As for the rest, Europe, including the Soviet Union, had about 26½ per cent. of the total, Africa had nearly 7½ per cent., North America about 6½ per cent., Latin America about 6 per cent., and Oceania less than half of 1 per cent.

Asia, excluding Soviet territory, contained 53 per cent. of the world's population, but only one-fifth of its land area. As against this, the Soviet Union had 16 per cent. of the land area, but only 8 per cent. of the people. Europe, excluding the Soviet Union, crowded its 18½ per cent. of the world's population on 4 per cent. of the land area, whereas Africa's 7½ per cent. were spread over nearly 23 per cent. of the land. North America occupied, with 6½ per cent. of the people, nearly 15 per cent. of the land, and Latin America, with 6 per cent., over 15½ per cent. of the land. Oceania had 6½ per cent. of the land area, but only a fraction of 1 per cent. of the world's population. Thus, in crude terms of land area, the densely populated continents were Europe and Asia, whereas America, Oceania and Africa, and the Soviet Union, appeared to have plenty of room for their populations to grow.

Such a measure is, of course, very crude; for much of the earth's surface is waste land, incapable of cultivation at the present stage of human knowledge and enterprise. There are vast deserts—waterless, or nearly waterless, regions almost empty of inhabitants—there are remote regions which no attempt has been

made to open up: there are tropical jungles uncleared and ice-bound territories which repel settlement. Moreover, there are great tracts, once fertile, which man has reduced to desert by improvident use of the gifts of nature—the African cornlands of the ancient world, the dust-bowls of North America, the deforested wilds of China, and many more. It is impossible to say, with any approach to accuracy, how large a part of the earth's surface is permanently outside the pale of effective human use. Too much depends both on the advance of scientific knowledge and its application and on the sheer pressure of population towards areas hitherto lightly populated or barely populated at all. The nineteenth century witnessed the opening-up of the vast continental areas of North America, the development of Australia, New Zealand, Argentina and South Africa, and other extensions of the cultivated areas of the world which falsified the predictions of Malthus and his successors about the pressure of population on the means of subsistence. We are witnessing now the rapid development of Soviet Asia and of certain parts of Latin America; and we have seen the cultivation of wheat in Canada, thanks to hardier new varieties, pushed further north than would have been possible a generation ago. We cannot prophesy how much of the earth's surface science and migration will open up for development, or how intensively mankind will learn to use areas which have hitherto seemed useful only for the rough grazing of a few hill sheep. What we can say is that certain parts of the earth are already grossly overpopulated in relation to their inhabitants' present scientific knowledge and means of developing their resources, whereas there are other areas, such as the Soviet Union, which are clearly capable of providing for a rapidly increasing population at a rising standard of life.

CULTIVABLE AND UNCULTIVABLE AREAS OF THE WORLD

	Temperate		*Tropical or sub-tropical*		*Total*	
	Million square miles	*Per cent.*	*Million square miles*	*Per cent.*	*Million square miles*	*Per cent.*
Too arid for crops	7·6	**26·2**	8·0	**34·8**	15·6	**30·0**
Too cold for crops	6·4	**22·1**	—	—	6·4	**12·3**
Not arable from other causes . .	10·0	**34·5**	10·0	**43·5**	20·0	**38·5**
Pasture that could be ploughed .	1·5	**5·2**	0·6	**2·6**	2·1	**4·0**
Existing cultivated area	2·5	**8·6**	1·2	**5·2**	3·7	**7·1**
Potentially arable	1·0	**3·4**	3·2	**13·9**	4·2	**8·1**
	29·0	**100**	23·0	**100**	52·0	**100**

Figures from M. K. Bennett, Food Research Institute, Stanford University, California.

The Margin of Cultivation

The nearest approach to a reliable estimate of the portion of the earth's surface that is at present usable by man for cultivation —or, rather, that would be, if it were opened up and developed with the resources available at the present stage of scientific knowledge and technique—is that of M. K. Bennett of the Food Research Institute of Stanford University, California. According to this estimate, the cultivated area over the world as a whole could be more than doubled, from about 3,700,000 square miles to nearly 8 millions. Even this larger total would represent only about 15 per cent. of the world's land surface; and three-quarters of the additional area would be in the tropical, and only one-quarter in the temperate zone. Well over 40 per cent. of the total land surface of the earth is either too arid or too cold for crops, and nearly as much again is not arable from other causes. It is desert, or mountain, or tundra, or waterlogged beyond present hope of drainage, or—this but a small part—built over. The remaining 4 per cent. is pasture land that could be ploughed up; but there is no reason to suppose that the result would be advantageous. Of course, some of the 81 per cent. of land that cannot be ploughed for crops can be used for grazing, and some is so used; but it would be of no advantage to attempt an estimate. Good grazing lands are scarce, and poor grazing lands plentiful at the present stage of knowledge; and that is nearly all that can be said in terms of the land surface of the world as a whole.

If we take only the temperate zone, we find that about $8\frac{1}{2}$ per cent. of its total area is at present under arable cultivation, and rather more than 5 per cent. is pasture that could be ploughed. Over 48 per cent. is too cold or too arid for crops, and a further 35 per cent. is not arable from other causes. Only about $3\frac{1}{2}$ per cent. is available in the temperate zone for extension of the cultivated area without trenching on existing pasture land. Even this $3\frac{1}{2}$ per cent. extends to a million square miles, and would mean an addition of two-fifths to the land now under cultivation. But there is, theoretically at any rate, room for a much greater extension of the cultivated area in the tropical and sub-tropical zones, where it would be scientifically possible to increase the area under crops by nearly 200 per cent.

It is not, of course, suggested that these increases are likely to become actual, or that it would be desirable to make them so. There is room for a very large increase in world food production even without bringing a single additional acre under cultivation, merely by improving the standards of farming efficiency on lands

already in use. There are enormous differences in the efficiency of cultivation at present in different areas, affecting the quality as well as the quantity of crops and also of livestock. Moreover, much of the best farm land now in use is at present cultivated by methods which produce a high yield, not per acre of land under the plough or in use for pasture, but per worker employed. The great wheat-growing countries which principally supply the world market—the Argentine, Canada, Australia, and the United States—all show low, and even falling, yields per acre, not because they are less efficiently farmed than countries with higher yields, but because, where land has been plentiful and labour relatively dear, it has paid best to farm *extensively* rather than *intensively*, using little labour per unit of land and aiming not at a large crop per acre but at a low cost of production per bushel. As against this, most of the peasant countries are much shorter of land than of labour, for which the scarcity of industrial employment affords few outlets. Even where they show higher yields per acre than the great prairie countries, they secure this yield by a prodigal application of man-power, helped but little

A Comparison of Cereal Yields per Acre, Agricultural Productivity per Worker, and National Income per Head of Population in Various Countries before 1939

Wheat yield, cwts. per acre[1]		*Cereal yields per acre*[2]			*Agricultural productivity*[3]			*National income per head of population*[3]		
		High	*Middling*	*Low*	*High*	*Middling*	*Low*	*High*	*Middling*	*Low*
18	New Zealand	X			X			X		
23	Holland	X				X		X		
20	Scandinavia	X				X		X		
18	Great Britain	X				X		X		
18½	Germany	X				X			X	
12	France		X			X			X	
13	Czechoslovakia		X			X			X	
12	Italy		X				X			X
12	Japan		X				X			X
11	Hungary		X				X			X
10	Bulgaria		X				X			X
9	Poland			X			X			X
9	Yugoslavia			X			X			X
9	Spain			X			X			X
7½	Roumania			X			X			X
6	U.S.S.R.			X			X			X
5½	India			X			X			X
8	Argentine			X	X			X		
7	U.S.A.			X	X			X		
6½	Australia			X	X			X		
5½	Canada			X	X			X		

[1] Pre-war average. [2] *See* p. 69.
[3] Based on Clark, *Conditions of Economic Progress.*

by machinery or by modern scientific knowledge. The consequence is that, even if their yields per acre are higher, their standards of living are immensely lower than those of the prairie areas. So many mouths have to be fed off the land that few can live well. Indeed, often there are more workers living off the land than are needed for its cultivation even by the 'labour-intensive' methods that are in use: so that if a part of this labour were taken away, there would be no need, even with unchanged agricultural methods, for the gross amount of produce to fall off. Up to 1914 this pressure of population in the peasant areas used to be appreciably relieved by emigration, especially to the United States.[1] But since then immigration into America has been very greatly restricted by immigration laws; and America has practically stopped absorbing the surplus peasant populations of Southern and Eastern Europe. The result has been not only to aggravate the population problems of the peasant countries, but also to prevent them from improving their standards of cultivation, both because labour has been too plentiful to be profitably replaced by labour-saving machinery and because even the more enterprising peasants have been too much impoverished to afford the higher capital expenditure which improved methods of cultivation require.

Primary Poverty and Peasant Production

We have seen in the second chapter of this book that, by the standards by which we are accustomed to measure poverty in Great Britain, the vast majority of the world's inhabitants are desperately poor. It is not easy to compare standards of living between populations existing under widely different conditions, both of climate and of custom and social and economic structure; and no comparison of this kind can have more than the most broad and general significance. But, whatever standard we take, the differences are so great that there is no mistaking their importance. We have made use already, in Chapter II, of the estimates made by Colin Clark in his book, *The Conditions of Economic Progress*. Clark attempts to work out, for all the leading countries, a comparative table of 'real income' per head of population—that is, of average purchasing power over goods and services—round about 1930. According to his calculations only three countries in the world had in 1930 a higher average standard of living than Great Britain. These three were the United States, Canada, and New Zealand. Two others—Switzerland and Argentine—had about the same standard as

[1] *See* pp. 310ff.

Great Britain. All the rest were lower, down to an average income less than one-fifth as large in purchasing power as the average income in this country. The three countries with standards higher than the British contained less than 7 per cent. of the world's population: the countries with lower standards contained more than nine out of every ten of the world's inhabitants. Moreover, nearly eight out of every ten had an average standard of living less than half as high as the British average: three out of every four had one only a third as high; and over half had one less than one-fifth as high.

We know well enough how many families in Great Britain, and how much higher a proportion of the children, have been living in conditions which social investigators describe as conditions of 'primary poverty,' involving serious malnutrition, bad housing, and deprivation of most of the amenities of life. Even if we make the fullest allowance for difference of needs in different climates and under different conditions of existence, there is no escaping the meaning of these figures. The world, despite all the wonders of scientific advance and mechanical progress, remains desperately poor. The triumphs of technical discovery and skill have so far meant nothing, in terms of better living conditions, to the great mass of mankind: indeed, sometimes they have meant less than nothing—actual retrogression instead of advance. Even the richest country in terms of average income—the United States—has its millions of negroes and 'poor whites' still existing under conditions of absolute poverty. Every advanced country has its quota of slum-dwellers, improverished throw-outs, and, usually, underpaid peasants or rural workers. As against this, nearly every poor country has its few rich men—great European feudal land-owners, Indian rajahs, Chinese mandarins, native capitalists and war-lords, alien settlers from wealthier States. But we are dealing here with broad averages, which always and everywhere define in sufficiently clear terms the living standards of the great mass of the people. The world, I repeat, despite all the advances made in human skill and knowledge, remains desperately poor.

It is necessary to stress this obvious truth because most people in this and other relatively advanced countries habitually ignore it in their social thinking. In reading much that is written about economic questions one might suppose that the problem of production had already been solved, and that it remained only to bring about what is called 'full employment,' and a better distribution of what would be produced under conditions of 'full employment,' in order to achieve reasonable plenty for everyone.

Yet this is far from being true even of our own country—Great Britain; and it is even further from being true of Europe, and at a staggering distance from being true of the world as a whole. To think and act as if it were true is sheer absurdity. It would be absurd even if we were such nationalists as to care only for our own people, and not to give a thought to the rest of the world. It is damnably absurd when it is regarded in that way, not only because we ought to care for the well-being of all men, and not merely of our own people, but also because it is increasingly difficult for any one country to prosper when others with which it wishes to exchange its products are sunk in deep poverty, and not merely likely but certain that, in many areas, poverty will breed unrest and endanger the world's peace.

The Growth of Population

The total population of the world has approximately doubled during the past hundred years, and is now about three times as large as it was two centuries ago. The rate of increase has been greatest in the newer countries—in North and Latin America, and in Australasia; and it has been smaller in Asia and in Africa than in Europe, where population has more than doubled. The population of the New World has been swollen by immigration, mainly from Europe: that of Asia and Africa has been kept down by high death rates, especially the heavy rates of infant mortality: that of Europe has risen more than the world average, despite emigration, mainly because death rates, and especially infant mortality rates, have been sharply reduced in the economically developed countries. When war broke out in 1939 the world had an approximate population of 2,170 millions, as compared with, perhaps, 900 millions in 1800 and 1,170 millions in 1850. Between 1900 and 1939 the total rose by about 560 millions.

For some time at any rate this trend is likely to continue. No doubt, in Great Britain and in other countries of Western Europe the population is likely for a time to fall; but this tendency will be much more than offset by the increase of population elsewhere. The League of Nations published in 1944 a forecast of European populations of which use will be made later in discussing the British outlook.[1] The accompanying Table summarises these forecasts. It has, of course, to be borne in mind that the estimates do not pretend to forecast what the populations of the various countries will actually be in 1970. They are simply projections of pre-war tendencies, making no allowance for war casualties or for other effects of war conditions, and, of course,

[1] *See* pp. 430ff.

A Century's Growth of Population in Certain Countries

	Approximate population in millions	
	1840	*1939*
England and Wales	16·0	41·5
Scotland	2·6	5·0
Ireland	8·2	4·2
France	34·2	42·0
Italy	18·6	43·9
Spain	12	25·6
Germany	33	69·3
Russia	59	172
U.S.A.	17·1	131·4
Canada	1·7	11·4
Argentine	1	13·1
Australia	0·26	7·0
British India	98	382
World	1,000	2,170

European Populations in 1945 and Expected Populations in 1970 without Allowance for Territorial Changes, War Casualties or Migration

From League of Nations Report on the *Future Population of Europe and the Soviet Union*, 1944. Figures in millions

1945		*1970*	
Soviet Union (1939 frontiers)	189·0	Soviet Union	251·0
Germany (Old Reich)	71·2	Germany	69·8
United Kingdom	47·6	Italy	49·5
Italy	45·7	United Kingdom	43·6
France	40·8	Poland	41·4
Poland (1939 frontiers)	36·7	France	36·9
Spain	26·4	Spain	27·8
Roumania	21·3	Roumania	25·3
Yugoslavia	15·8	Yugoslavia	18·5
Czechoslovakia (1938 frontiers)	15·5	Czechoslovakia	14·9
Hungary	9·3	Holland	10·0
Holland	9·2	Hungary	9·3
Belgium	8·4	Portugal	9·1
Portugal	8·0	Greece	8·6
Greece	7·5	Belgium	7·8
Austria	6·7	Bulgaria	7·3
Bulgaria	6·6	Austria	6·3
Sweden	6·4	Sweden	5·8
Switzerland	4·3	Denmark	4·0
Denmark	3·9	Switzerland	3·9
Finland	3·9	Finland	3·9
Norway	3·0	Norway	2·9
Lithuania	2·5	Lithuania	2·7
Latvia	2·0	Latvia	1·9
Estonia	1·1	Albania	1·3
Albania	1·1	Estonia	1·0

	By Regions		
1. Soviet (Soviet Union, Estonia, Latvia, Lithuania)	194·6	Soviet . . .	256·6
2. Central (Germany, Austria, Hungary, Switzerland, Czechoslovakia)	107·0	Central . . .	104·2
3. Western (U.K., France, Holland, Belgium)	106·0	Eastern . . .	102·4
4. Eastern (Poland, Roumania, Yugoslavia, Bulgaria, Greece, Albania)	89·0	Western . . .	98·3
5. South-western (Italy, Spain, Portugal)	80·1	South-western . .	86·4
6. North-western (Denmark, Finland, Norway, Sweden)	17·2	North-western . .	16·6

based on the pre-war territories of the various countries. Accordingly, even if the pre-war trends were to remain unaltered, the actual course of population movements would be bound to diverge considerably from what is here set down. Some countries already have different frontiers: there have been and will be movements—in some areas very extensive movements—across frontiers as a result of the war. And the casualties, both military and civilian, have been widely different from country to country. It is nevertheless worth observing that, whereas there is a marked tendency towards further increases in population in Eastern and Southern Europe, as well as in the Soviet Union, all the other areas in Europe show a tendency to decline, and that this is more marked in Western than in Central Europe. The Soviet Union and the Baltic States now incorporated in it, even without the other territories that have been added since the war, will, as far as the forecasts hold good, have by 1970 38·6 per cent. of the total population of the whole area of Europe and Soviet Asia.

Leaving out the Soviet Union, we find that, on the same assumption, the percentage shares of the remaining regions of Europe will change as follows:

PRESENT AND PROSPECTIVE DISTRIBUTION OF POPULATION IN EUROPEAN REGIONS *per cent*

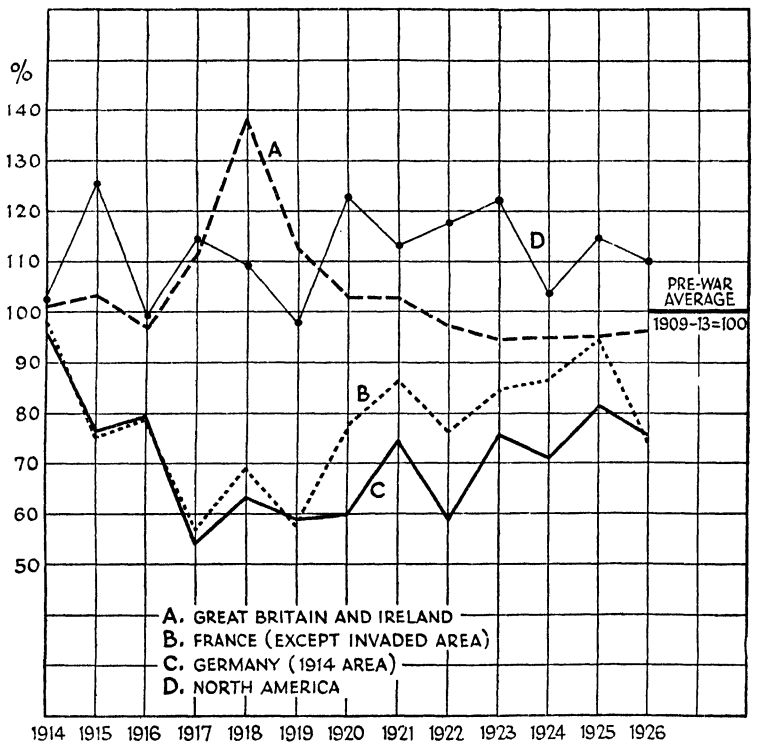
	1945		*1970*	
Central	26·8	Central	25·6
Western	26·5	Eastern	25·1
Eastern	22·3	Western	24·1
South-western . . .	20·1	South-western . . .	21·2
North-western . . .	4·3	North-western . . .	4·1

Thus, the Western and North-western groups will fall from nearly 31 per cent. of the total to just over 28 per cent., while

the Eastern and South-western groups will rise from 42½ per cent. to well over 46 per cent. These changes are not sensational; but they are significant, especially in view of the existing agrarian over-population in the East and South.

The Production of Cereals after 1918

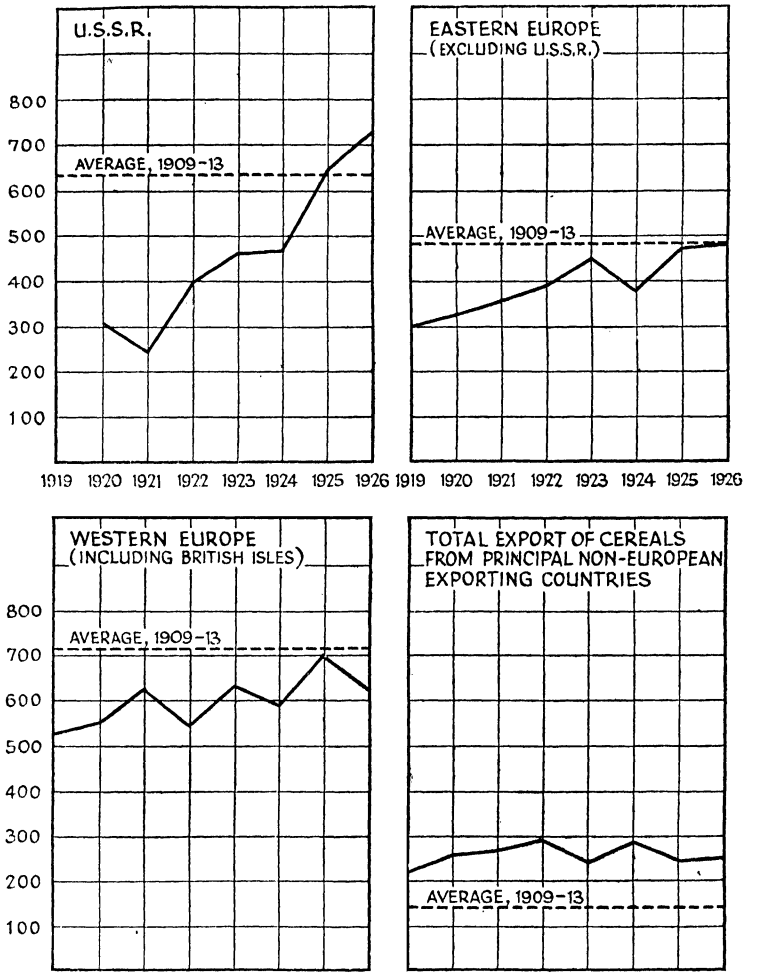
How are these increasing populations in the economically more backward areas of Europe to find adequate means of living,



CEREAL PRODUCTION, 1914–26 IN THE UNITED KINGDOM, FRANCE, GERMANY AND NORTH AMERICA (1909–13 = 100).

especially in face of the destruction which has been wrought during the war in most of the countries concerned? Let us begin by considering what happened after the last war in respect of agricultural production. Only in 1925 or 1926 did European cereal production as a whole regain the average level of the

years before 1914. This is approximately true, whether the Soviet Union is left in or out of the calculation. Actually, Eastern Europe, excluding the Soviet Union, just reached the



PRODUCTION OF CEREALS IN EUROPE BEFORE AND AFTER THE FIRST WORLD WAR, AND EXPORTS FROM CHIEF NON-EUROPEAN EXPORTERS.

European Production of Cereals and Potatoes after the First World War

Black figures show years in which pre-war average was exceeded

Millions of metric quintals	*1909–13*	*1919*	*1920*	*1921*	*1922*	*1923*	*1924*	*1925*	*1926*
			U.S.S.R.						
Wheat production	206·0	—	86·6	55·7	87·5	114·1	128·5	**206·1**	**248·7**
Rye	189·1	—	93·7	101·8	181·5	**199·2**	187·2	**225·5**	**239·1**
Barley	90·4	—	47·1	26·6	38·2	45·5	39·3	57·1	53·5
Oats	134·3	—	70·2	52·2	73·8	77·6	87·6	116·9	**155·4**
Maize	13·4	—	11·5	11·6	**20·6**	**27·1**	**23·1**	**42·8**	**33·4**
Total cereals	633·2	—	309·1	247·9	401·6	463·5	465·7	**648·6**	**730·1**
Potatoes	50·5	—	**52·0**	**53·3**	**57·3**	**86·8**	**90·5**	**96·5**	**109·5**
Total	683·7	—	361·1	301·2	458·9	550·3	556·2	**745·1**	**839·6**
			Eastern Europe						
Wheat	123·0	69·2	66·9	85·1	87·7	100·7	104·3	117·4	113·1
Rye	108·7	60·4	54·2	87·0	91·0	103·6	72·9	**117·4**	100·9
Barley	66·4	39·0	51·4	52·5	63·6	**81·7**	32·9	58·2	63·0
Oats	78·3	54·6	57·9	65·6	72·5	**80·7**	63·7	67·1	74·8
Maize	104·9	78·7	95·9	65·2	75·4	83·3	**105·4**	**115·2**	**125·3**
Total cereals	481·3	301·9	326·3	355·4	390·2	450·0	379·2	475·3	477·1
Potatoes	100·5	68·5	81·2	75·8	**128·0**	**118·5**	**113·5**	**101·0**	94·0
Total	581·8	370·4	407·5	431·2	518·2	568·5	492·7	576·3	571·1
			Western Europe (excluding U.K.)						
Wheat	225·2	166·1	176·6	**226·0**	177·2	223·4	167·6	**248·2**	203·6
Rye	139·9	93·9	85·7	109·5	90·4	105·4	92·5	123·0	92·5
Barley	70·2	52·6	57·0	61·2	56·4	51·2	**80·1**	**75·1**	**71·8**
Oats	172·7	108·2	129·1	126·4	123·0	154·5	142·5	150·7	159·3
Maize	40·5	33·5	36·7	35·4	32·5	35·5	**44·3**	**43·9**	**40·7**
Total cereals	648·5	454·3	485·1	558·5	479·5	570·0	527·0	640·9	567·9
Potatoes	166·0	113·0	134·3	120·0	**176·3**	128·8	157·8	**185·0**	143·3
Total	814·5	567·3	619·4	678·5	645·8	698·8	684·8	**825·9**	711·2
			Western Europe (including U.K.)						
Total cereals	709·4	523·2	548·1	621·3	538·9	627·6	585·0	698·9	626·5

From League of Nations Report on *Agricultural Production in Continental Europe*, 1943.

pre-war average level in 1926; Western Europe nearly reached it in 1925, only to fall back badly in 1926; the Soviet Union reached it in 1925 and forged a long way ahead of it in the following year. Over all the after-war period the deficit in home production was being met by greatly increased imports of cereals from outside Europe. After 1926 European production increased further. For the Continent as a whole (excluding the Soviet Union and the United Kingdom), total production of cereals and potatoes was about the same on the average of 1925 to 1929 as it had been from 1909 to 1913, and was substantially higher in the 'thirties, when it averaged over 1,500 million quintals as against about 1,400. This, however, was not enough to provide for the increase in population, and supplies per head, including imports, remained smaller than before the war, and included a larger proportion of potatoes. For livestock no such detailed figures are available for the entire continent; but in 1925 the total livestock population (excluding that of the Soviet Union) was not appreciably larger than before the war. There were rather more horses and sheep, but rather fewer cattle and many fewer pigs. It is a safe generalisation that over Europe as a whole agricultural production per head of population was substantially lower for a full ten years after the first World War than it had been before 1914. Indeed, it probably remained lower right up to 1939.

The general facts about cereal production after the last war

INDICES OF WORLD PRODUCTION AND TRADE (1913 = 100)

From the League of Nations Memoranda on Production and Trade

	Population	*Production*[1]			*Quantum of trade*	
	1925	*1923*	*1924*	*1925*	*1924*	*1925*
Europe:						
Eastern and Central (excluding U.S.S.R.)	103	78	85	98	71	82
Rest (excluding U.S.S.R.)	105	96	101	105	98	99
As a whole:						
Excluding U.S.S.R.	104	87	93	102	89	94
Including U.S.S.R.	101	84	89	102	85	89
North America	119	129	119	128	126	137
Caribbean	107	164	178	173	132	128
South America	122	123	117	125	91	97
Africa	107	123	135	144	97	99
Asia (excluding U.S.S.R.)	105	110	117	121	123	136
Oceania	116	104	120	117	118	132
World:						
Foodstuffs	—	103	101	111	—	—
Raw materials	—	110	114	122	—	—
General index	105	106	107	116	98	105

[1] Indices weighted by 1926 prices.

are shown in the Diagram on page 90, and further details are shown for the three main areas in a separate Table. It is much harder to present any picture of what happened to industrial production. The best general impression can be got from the index numbers of world production and trade compiled by the statistical section of the League of Nations. From them is derived the Table on p. 93.

This Table includes agricultural as well as industrial production, and is designed to give a general idea of the pace of development after the first World War in different parts of the world. It will be seen that in 1925, seven years after the end of the war, production per head of population had just caught up with the 1913 level in Western Europe, but was still behind in Eastern and Central Europe. In the rest of the world, on the other hand, there had been a sharp increase in production per head, especially in North and Central America and in Asia and Africa. Oceania and South America had advanced much less fast; but for the world as a whole production had gone well ahead of the increase in population. World trade as a whole had just kept pace with population; but there had been a considerable fall in Europe offset by large increases in North and Central America and in Asia. Here again Eastern and Central Europe made the poorest showing.

Coal Output after 1918

Coal and railway goods transport are two of the best measures of general economic activity over short periods. Unfortunately, the transport figures are so complicated by territorial changes that no valid comparison between pre-war and post-war years can be made. Coal is simpler; and in the Diagram on page 97 I have given the post-war output of coal in a number of the chief producing countries as a percentage of the average output in the same areas from 1909 to 1913. That is to say, where a coalfield was transferred from one country to another as a result of the war, its pre-war output is reckoned as part of the output of the country to which it was transferred. The general trends of production are in this case upset by certain major disturbances —the British coal strikes of 1921 and 1926, the American strike of 1924, and the French occupation of the Ruhr in 1923. These disturbances can, however, easily be allowed for. It will be seen that American output after the slump of 1921–2 continued a long way above the pre-war level. Germany, intent on making up for war losses by intensive development of its remaining coalfields, forged well ahead after the ending of the Ruhr crisis. France,

starting with severe dislocation, developed steadily—of course, with a much smaller capacity. The Soviet Union, beginning from a very low level, expanded rapidly, but had barely exceeded the pre-war average by 1926. Poland, heir to a part of the Silesian coalfield, followed a chequered course, interfered with by political disturbances, and only just regained the pre-war average in 1926. In Great Britain, the pre-war average was exceeded only at the height of the Ruhr troubles in 1923; and even apart from the effect of strikes the trend was definitely downward. All the figures could have been made to look less favourable by taking the peak pre-war year, 1913, as a basis, instead of the average of the years 1909–13. It can be seen from the data given in the Table how this would have affected the general picture. Subsequently to the Ruhr occupation the combined coal output of Germany, France and Poland was each year above the average level of the pre-war period, whereas until 1927 the output of these three countries, *plus* the United Kingdom, reached the pre-war level only in one year, 1924.

Economic and Financial Dislocation

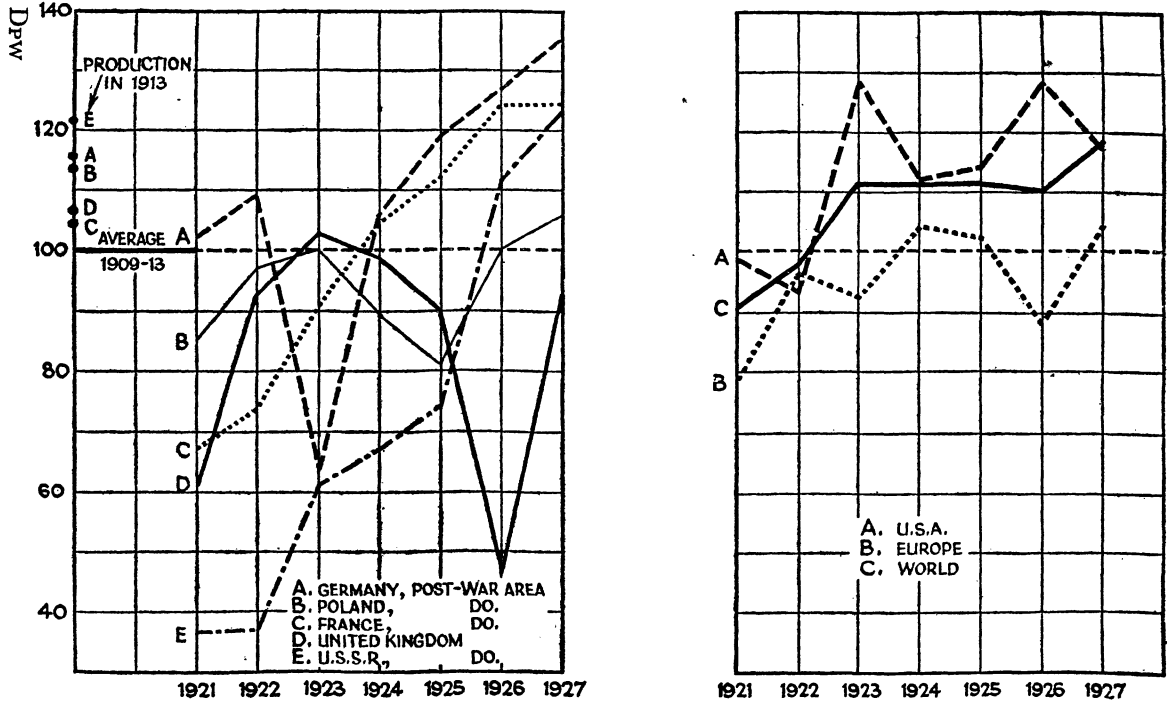
Thus, in industry as well as in agriculture, recovery after the first World War was a protracted affair. Yet there was, between 1914 and 1918, no such wholesale destruction of industrial assets as has taken place during the European War of 1939–45. The effects of bombing in the first World War were negligible; and bombardment and other land fighting spread destruction over a comparatively small area, mainly in Belgium and Northern France. Over most of Europe, the difficulty of resuming production at the pre-war level was due, after 1918, much less to direct war damage than to the deterioration of instruments of production outside the war trades, the failure to make renewals or new investments in capital goods, and the sheer dislocation of international economic relations, which caused artificial scarcities of necessary implements and materials for which the countries that needed them were unable to pay. Disorganised currencies, themselves partly a symptom as well as a cause, reduced the international purchasing power of many countries to a wretchedly low level; and speculation in foreign exchange everywhere aggravated the difficulties. We have come to know already that the fixing of external values, even on a temporary basis, for the currencies of countries liberated from Nazi occupation presents very difficult problems; and still greater difficulties are bound to arise when the military arrangements are relaxed in the defeated countries and the new Governments of the liberated countries set

Coal Production after the First World War

Including lignite in terms of coal

	1909–13 average	1913	1921	1922	1923	1924	1925	1926	1927	1928	1929
				A. Millions of metric tons							
United Kingdom	274	292	166[1]	254	280	271	247	128[1]	255	241	261
Germany[3]	138	160	141	150	89[2]	146	164	176	187	188	202
France[3]	42	44	28	31	38	44	47	52	52	52	54
Poland[3]	36	41	30	35	36	32	29	36	38	41	46
Czechoslovakia[3]	18	19	25	22	22	27	24	25	26	27	30
Saar[3]	11·5	12	10	11	9	14	13	14	14	13	14
Belgium	23	23	22	21	23	23	23	25	28	28	27
Holland	1·5	2	4	5	5	6	7	9	9	11	12
U.S.S.R.[3]	24	29	9	9	12	16	18	26	32	35	40
Continental Europe as a whole	302	340	281	297	250	326	340	379	403	410	443
Europe as a whole	576	632	447	551	530	597	587	507	658	651	704
U.S.A.	465	517	459	433	597	519	528	597	543	517	546
World	1,123	1,242	1,019	1,099	1,249	1,241	1,246	1,238	1,335	1,300	1,380
				B. Index numbers							
United Kingdom	100	107	61[1]	93	102	99	90	47[1]	93	88	95
Germany[3]	100	116	102	109	64[2]	106	119	127	135	136	146
France[3]	100	105	67	74	90	105	112	124	124	124	129
Poland[3]	100	114	85	97	100	89	81	100	106	114	128
Czechoslovakia[3]	100	108	139	122	122	150	133	139	144	150	167
Saar[3]	100	106	83	98	80	122	113	119	119	113	119
Belgium	100	98	93	91	99	100	100	109	122	122	117
Holland	100	125	263	305	353	395	460	580	580	735	800
U.S.S.R.[3]	100	122	37	37	61	67	74	111	133	146	167
Continental Europe as a whole	100	113	93	98	83	108	113	125	133	136	147
Europe as a whole	100	110	78	96	92	104	102	88	114	113	122
U.S.A.	100	111	99	93	128	112	114	128	117	111	117
World	100	111	91	98	111	111	111	110	119	116	123

[1] Coal Strike. [2] Occupation of Ruhr. [3] Post-war areas.



COAL PRODUCTION AFTER THE FIRST WORLD WAR, INCLUDING LIGNITE IN TERMS OF COAL (1909–13 = 100).

to work to put their financial houses into order on more than a temporary footing.

To these financial problems is added, on the present occasion, the sheer destruction that has overtaken industry over a large part of Europe. As I write, there is still no possibility of measuring this destruction. It is, of course, greatest of all in the Ruhr and other areas of Western Germany, and in the Ukraine and other industrial areas of the Soviet Union which were devastated by the Nazis before their armies withdrew. In the latter case the work of restoration has already begun; but those who have knowledge of it appear to agree that the sheer physical labour of rebuilding the destroyed industrial capacity of these regions is bound to take six or seven years, however intensively the task may be set about. The great Dnieper dams are being reconstructed: the entire system of electrical power, on which Soviet industries depend, has to be refashioned. Much plant that was removed by the Russians, with quite astonishing skill and energy, before the Germans could reach it has been brought back. But a great deal has been lost, and to get the whole complex industrial structure of the Don, the Donetz and the Ukraine working again at pre-war capacity is bound to be a tremendous piece of labour.

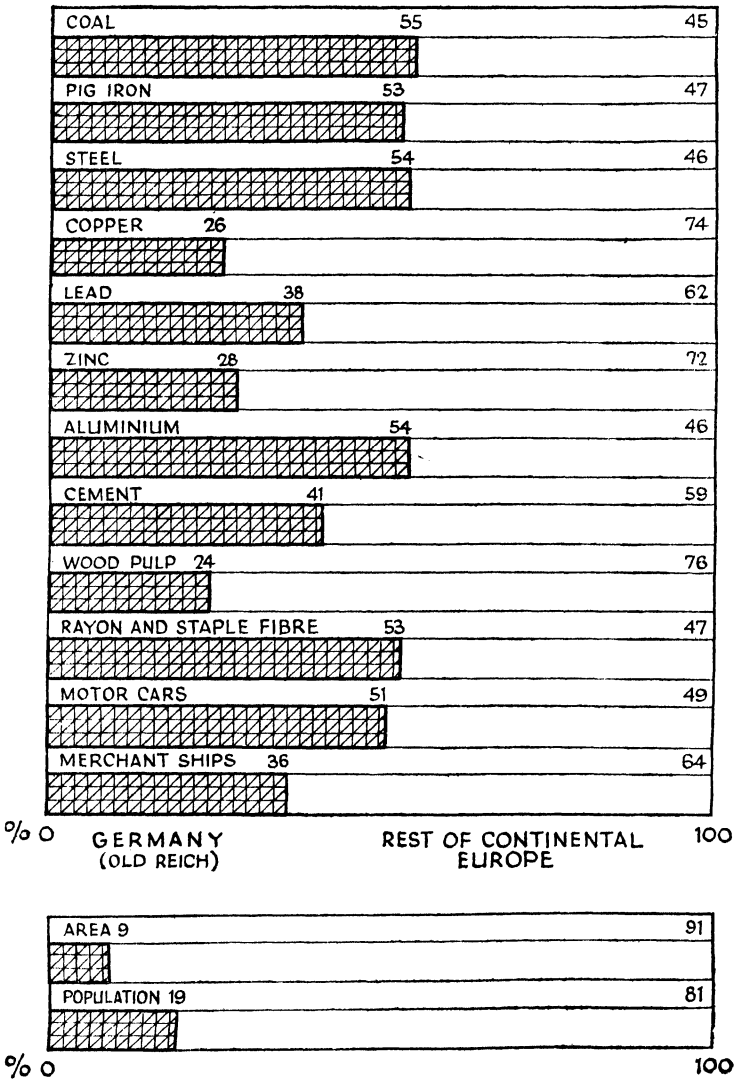
In Germany, as I write, the work of destruction has not yet come to an end—for plant is still being removed as reparations and factories deemed dangerous as potential rearmament points are being dismantled, and nothing has been done as yet towards rebuilding. Indeed, the entire future of German industry has still to be settled; and until broad decisions have been taken on policy, we cannot know what will be reconstituted and what left derelict as presenting a potential danger of war. This entire problem will be discussed in a later chapter, and I do not wish to anticipate any of the conclusions of the discussion now. What must be observed here is that pre-war German industry provided so large a part of the whole industrial equipment of continental Europe that the disappearance, without replacement or re-erection elsewhere, of any substantial part of it is bound to impoverish the entire continent. It does not, of course, follow that all the destroyed productive capacity must be reinstated precisely where it used to be, or indeed in Germany at all. That is a question to be discussed later in this book. What I am saying here is that the destroyed capacity must be replaced *somewhere*, where there is reasonable hope of it being effectively used, if all Europe—and not merely Germany—is not to suffer a reduction in its standards of life.

Germany's Share in European Production

In order to appreciate this, it is enough to glance at the Diagram and Table on pages 100-103, which show how large was the pre-war German share of total continental production of a number of the most important industrial commodities, from coal and steel to artificial textiles, motor cars, and merchant vessels. There are, of course, as can be seen from the Table, many commodities in which Germany did not occupy an outstanding position—for example, many of the non-ferrous metals, petroleum and wool; but, as against this, there are many manufacturing industries in which Germany has been pre-eminent, but comparative data cannot be given.

The Rise of German Industry

This vast industrial development of Germany is of comparatively recent growth. Germany was a long way behind Great Britain in adopting the new techniques which followed upon man's mastery of the working of metals and of the power of steam. France and Belgium, as well as Great Britain, were in these respects a long way ahead of Germany right through the first half of the nineteenth century. The Germans were skilled artificers, with a traditional excellence in many hand processes: they had their ancient merchant cities and an established position as traders along the land and river routes that linked Europe with the East. They possessed many handicrafts, but few factories, in the modern sense; and even after the development of the German Zollverein, or Customs Union, of 1834, economic growth was much hampered by the lack of political unity. By the 1860's, as part of the movement towards political unification, industrial development was taking a modern form, strongly encouraged by the ambitious leaders of the Prussian State, who acted under the influence of the theories of economic nationalism associated with the name of Friedrich List. A special stimulus was given to the production of iron and steel as a basis for intensive industrial development; and this stimulus became stronger with the annexation of Alsace and Lorraine after the war of 1870—the more so because the discoveries of Gilchrist Thomas and others made it possible to use the phosphoric ores of Lorraine in conjunction with the Ruhr coal as a foundation for the production of cheap steel. From the achievement of political unity in 1870 German industrialism leapt ahead; and by the early 'nineties Germany was producing more steel than Great Britain. With extraordinary rapidity, the German Reich advanced from economic backwardness to the very front rank among industrial countries, making



GERMANY'S SHARE IN THE INDUSTRIAL PRODUCTION OF CONTINENTAL EUROPE, 1938.

Per cent. of total output, excluding U.S.S.R.

vast strides in engineering and electricity and chemicals, as well as in steel and coal, and showing a remarkable capacity for appropriating and applying intensively the scientific discoveries of the whole world. The traditional craft skill of the Germans, their meticulous scholarship and methodical habits of arrangement and classification, were successfully turned over to the cultivation of modern industrial techniques based on science; and their central territorial position in Europe was of great help to them in fostering in more backward countries complementary forms of development which gave them not only markets but also sources of materials which were lacking upon their own soil.

This astonishing material progress would not, indeed, have been possible had not Germany been rich in the natural resources which are needed as a basis for the metal and chemical industries. In the Ruhr, in Saxony, and in Silesia the Germans possessed rich coalfields suitable for metallurgical use. The Lorraine ore deposits were rich and abundant. Potash was available as an essential for scientific agriculture. The skill of the people would have been unavailing in the absence of the indispensable natural resources—above all, coal and iron—on which the industrialism of the nineteenth century was mainly based. Germany was an area naturally suited for industrial development; and, even if the personal qualities of the Germans are left out of the reckoning, it is plain that Europe would be impoverished if, for any reason, these abundant natural resources, or any large part of them, ceased to be effectively used.

In saying this, I am, I hope, begging no question. I shall discuss later the proposals put forward for dismembering Germany in such a way as to transfer the ownership of a great part of the natural resources of the pre-war Reich to neighbouring States, or to some form of international administration. Here I am insisting only that in one way or another the great resources of Germany should be used for the benefit, not merely of the Germans, but of all Europe and indeed of the whole world.

Europe's Undeveloped Resources

No doubt, there are considerable undeveloped, or grossly under-developed, natural resources in other parts of Europe—for example, in the Balkans. Indeed, some of these resources have begun to be intensively developed for the first time by the Germans as a source of essential war supplies. No doubt, too, modern scientific development of substitute materials, such as artificial textiles and plastics, has opened up wider possibilities of industrial expansion in areas deficient in mineral wealth or in the

Production of Certain Materials in Europe by Regions

1938 or nearest available year

	United Kingdom	*Germany*	*Central Europe*	*Balkans*	*France, Belgium Holland*	*Italy, Spain and Portugal*	*Scandinavia and Finland*	*U.S.S.R.*	*Turkey*
Coal (million metric tons)	231	186	53	1	90	7	1	133	3
Lignite as coal (million metric tons)	—	36	13	3	0·5	0·3	—	—	0·1
Manganese (thousand tons) (1937)[1]	—	209	52	28	—	12	2	—	0·1
Iron ore (million tons)	3·6	3·1	1·6	0·6	11·8	1·7	9·4	13·5	—
Pig iron (million tons)	6·9	18·0	0·9	1·2	10·4	1·3	0·9	14·6	—
Steel (million tons)	10·6	22·5	4·6	0·5	9·8	2·9	1·0	18·0	—
Copper ore (thousand tons)[1]	—	30	0·7	42	—	42	45	98	2·5
Copper (thousand tons)	7	66	5	43	83	18	33	84	2
Lead ore (thousand tons)[1]	30	86	19	90	4	75	9	69	5
Lead (thousand tons)	10	170	39	24	132	77	0·3	69	1
Zinc ore (thousand tons)[1]	12	215	77	54	4	121	43	80	10
Zinc (thousand tons)	56	194	114	8	289	42	47	80	—
Tin ore (thousand tons)[1]	2	0·3	—	—	—	1·2	—	—	—
Tin (thousand tons)	37	3	—	—	34	1	0·3	—	—
Bauxite (thousand tons)	—	93	540	601	683	361	—	250	—
Aluminium (thousand tons)	23	160	33	1	45	27	31	44	—
Chrome ore (thousand tons)[1]	0·1	—	—	45	—	—	0·2	90	104
Nickel ore (thousand tons)[1]	—	0·6	—	1·2	—	—	1·2	2·5	—
Tungsten ore (metric tons)[1]	154	—	—	—	13	1,830	119	?	—
Cadmium (metric tons)	125	430	244	—	296	182	208	115	—
Antimony ore (metric tons)[1]	—	—	1,426	3,671	265	1,089	—	—	580
Vanadium ore (metric tons)[1]	—	—	—	—	—	—	—	—	—
Molybdenum ore (metric tons)[1]	—	—	—	—	—	1	462	—	41
Quicksilver (metric tons)	—	—	105	—	—	3,728	—	—	20

Silver (metric tons)	3	217	42	135	17	33	45	218	—
Gold (kilograms)	—	269	300	7,354	2,711	780	7,423	(168,000)	—
Cement (million tons)	8·0	15·6	4·1	1·7	7·5	5·5	2·4	* 6·0	0·3
Petroleum (thousand tons)	131	552 (shale)	632	6,711	72	13	—	28,859	—
Petroleum products (million tons)	1·7	2·5	0·8	6·4	5·3	1·4	—	26·6	—
Wood pulp (thousand metric tons)	270	2,544	1,018	82	447	186	6,078	871	—
Rayon (thousand metric tons)	48	64	16	1·1	42	47	1	7	—
Staple fibre (thousand metric tons)	14	150	2	—	6	76	1	—	—
Wool (thousand metric tons)	58 (including Eire)	20	14	60	26	47	6	142	32
Cotton (thousand quintals)	—	—	—	205	—	88	—	8,400	647
Soya beans (thousand quintals)	—	—	50	576	—	—	—	?	—
Tobacco (thousand quintals)	—	335	495	1,029	380	461	4	? (1,546) 1930–4	588
Beet sugar (million quintals)	3	19	12	2·4	11	5	4	22	0·4
Wine (million hectolitres)	—	2·3	6·1	18·4	54·4	61·1	—	?	0·7

Central Europe: Austria, Switzerland, Hungary, Czechoslovakia, Poland.
Balkans: Bulgaria, Greece, Roumania, Yugoslavia, Albania.
France, etc.: France, Belgium, Luxembourg, Holland.
Scandinavia: Denmark, Finland, Norway, Sweden, Iceland.
U.S.S.R.: including Estonia, Latvia and Lithuania.
United Kingdom: wool includes Eire (8).

[1] Metal content.

means of creating large native industries based on imported materials. These possibilities, however, have not done away with the importance of the basic materials of industry as it developed during the nineteenth century. Coal and iron may be less indispensable than they were as foundations for developed industry in a particular country: they are no less essential to the industrial achievement of a whole continent or region. The tremendous advances made by the Soviet Union in recent years have rested on coal and iron only a little less—because of petrol and hydro-electricity—than the earlier achievements of Great Britain, Germany, and the United States. Coal and iron are still the basic requisites for high achievement in the arts of peace as well as in those of war.

We have, then, ahead of us immense tasks not only in rebuilding a shattered Europe, but also in developing much further the resources which are at our common command, so as to achieve something approaching a common standard of civilised living over a much wider area than before. The task of rebuilding what has been broken cannot be severed from that of building up what has never yet come into being in the less developed areas of Europe—and indeed of the whole world. We have not merely to restore, but also to diffuse—to achieve a spread of productive capacity based on scientific knowledge throughout the regions which have hitherto lagged behind; and, in order to do this effectively, we have to think, no longer on a narrowly national basis, but in terms of economic and social planning which needs to transcend national frontiers and to extend sometimes over wide regions, sometimes over whole continents, and sometimes over all the earth. The ideal, a universal diffusion of the achievements of science and of the most consummate arts of production among all the peoples, we can hope to approach only by stages; and we must beware of pitching our immediate objectives so high as to reject what can be done soon because it falls short of our larger hopes. We must proceed with the task as and where we can, seizing every chance that offers anywhere a prospect of raising standards of living that are behind the plain possibilities, and of promoting common action among the peoples in place of the narrow nationalism which has done so much to thwart earlier hopes. We shall get the whole thing wrong if we envisage our task simply, or even mainly, as one of putting back what has been destroyed. That would be as foolish as to rebuild our blitzed cities, slums and all, instead of planning them anew. There will be no assured peace or security in the world until the world's peoples and their rulers turn from thinking exclusively in

national, or imperialist, terms to thinking of the common problem of making the best of the whole of the productive resources that are at men's command. To urge this is not to suggest that only production matters or that there are no other values in living or none which an indiscriminate industrialism may not menace and destroy. There are, of course, other values of the deepest human importance; but no one who looks squarely at the facts can doubt that sheer poverty, based on want of knowledge, on bad economic and political organisation, and on inertia, is an enemy against which, in peace, all decent men are under a call to wage relentless war, or that the achievement of higher living standards over a large part of the world is an essential for the prevention of misery, the promotion of happiness, and the establishment of security for the peoples of the world. Nor, I think, can it be doubted that the evils of poverty in the backward areas are greatly aggravated by the contrast with what has been achieved elsewhere, or that the impact of the economically advanced upon the economically backward peoples, in the forms which it has mainly taken hitherto, has tended to destroy the old foundations of living without putting in their place any new foundations on which the backward peoples have been given a chance to construct a new fashion satisfying to their impulses or compatible with their happiness. This can be altered only by going much further, and by acting in a different spirit. Industrialisation in backward areas has hitherto made progress only where it has fitted in with the needs and notions of capitalist interests in the advanced countries: it has hardly ever been planned in relation to the wants and aspirations of the backward peoples. It is our task now to face the problems of economic reconstruction and new construction, as constituting together a single problem, in the spirit of common use of the resources at mankind's command for the promotion of common standards and of a conception of human happiness which stops short at no frontiers, and no longer judges of men's needs by the colour of their skins, or by what they have actually had to live on up to the present time.

PART TWO

CAPITALISM, SOCIALISM, AND THE ALTERNATIVES

CHAPTER I

SOME LEADING IDEAS: CAPITALISM, FASCISM, SOCIALISM, AND ECONOMIC DEMOCRACY

THE PRESENT SECTION is devoted to an analysis of certain ideas, or bodies of doctrine, which to-day dominate our social and economic thinking and form the main subject-matter of political and social controversy. We have been living, in most of the advanced countries of the world, under an economic system known as *Capitalism*. This system has been increasingly challenged by the advocates of *Socialism*, who have been actively carrying on their propaganda for more than a century and have now for more than a quarter of a century held power in one great country —the Soviet Union. As I write, they have recently won a parliamentary majority in Great Britain. The particular kind of Socialism professed by the Socialists of the Soviet Union and by considerable numbers elsewhere is called *Communism*—a name not new, but harking back to the famous *Communist Manifesto* drawn up by Marx and Engels in 1848. The fear of Socialism, and still more of its Communist form, was one of the forces responsible for the rise after the first World War of *Fascism*, which conquered political power first in Italy in 1922 and later, in the somewhat different form of *Nazism*, or "National Socialism," in Germany, and spread thence to many other countries. There has been much dispute whether Fascism and Nazism are to be regarded as merely forms of Capitalism—that is, of capitalist counter-revolution against Socialism and democracy—or as constituting a new type of social system essentially different from both Socialism and Capitalism; and this question will be discussed in due course. For the time being, we may set it aside.

Capitalism, Socialism, Individualism

Socialism stands, in most people's minds, first and foremost for the public ownership of the essential means of production and distribution, and for their planned use for the common benefit. As against this, Capitalism stands for private ownership and for the incentive of private gain, which, its upholders contend, will in fact serve the general interests better than public ownership.

At this point, the issue becomes crossed with another. Many advocates of Capitalism profess themselves to be *Individualists* and denounce Socialism and public ownership as leading, not to true democracy, but to serfdom and to the Servile State. They maintain that private ownership and the pursuit of private profit are necessary to the preservation of liberty as well as to the production of the largest practicable total of wealth and income. On the other hand, Socialists argue that public ownership and planned use of productive resources for the common benefit will both increase production and enlarge liberty. Socialists join with the less reactionary Individualists in denouncing the abuses of monopoly and restriction on output which are agreed to exist on a large scale under the actual conditions of modern capitalist organisation; but Socialists go further in regarding private ownership of land and large-scale capital as constituting in itself a form of monopoly which is bound to produce anti-social effects and to restrict not only output but also the liberties of the great majority of the people. Socialists, equally with Individualists, claim to be the friends of liberty, but regard the "Servile State" as an apt description, not of Socialism, but of Fascism and Nazism, which have been its most ruthless and determined enemies. In addition, they answer the Individualists who defend Capitalism in the name of individual liberty by saying that in fact Capitalism has been becoming more and more an affair of huge trusts, cartels, and financial combines which exert over the lives of ordinary men and women an authority that ought never to be allowed to rest in irresponsible hands.

Thus there exists, intermingled with the struggle between Capitalism and Socialism, the struggle between freedom and monopoly vested in the hands of certain limited capitalist groups. But, whereas for the Socialists this is a battle against *private* monopoly, based on private ownership of the large-scale means of production, for the Individualists it is also a battle against *public* monopoly, which they claim is no less inimical to the freedom of the common man.

Conflicting Ideas of Democracy

Nor can we ignore a third battle, which underlies both the others—the battle over *Democracy*. The Individualists, where they profess to stand for Democracy, identify it with the right of each man to do his best for himself, with the minimum of intervention on the part of the State except for the protection of private property rights. Property they do invoke the State to protect; for they regard private property as the foundation on which

freedom rests. Beyond that, they look askance at State intervention in the economic field, most of them accepting the greater part of the intervention that has been sanctioned by long usage, but opposing any extension of its scope. Democracy, on this showing, is mainly a matter of the formal equality of men before the law, and perhaps of all men's right to take part electorally in choosing persons to represent them in a Parliament or assembly which may exist side by side with other State organs not constituted by popular vote, and should in any case have only limited functions, especially in the economic sphere.

The Socialist idea of Democracy is quite different. Socialists mean by Democracy that the whole power should finally reside in the whole people and the actual powers of government be exercised, as nearly as possible, by the people's nominees. They hold, moreover, that Democracy extends to economic as well as to political affairs, and that the division of society into economic classes, differing widely in wealth and in the power that goes with it, is inconsistent with Democracy. They demand, in the name of Democracy, if not economic equality in a strict sense, at all events such an approach to it as will suffice to eliminate class-divisions based on inequality of possessions, and in particular both large unearned incomes and large incomes derived from the ownership of land and capital goods. Socialism, they say, implies a quite different system of economic relationships, and excludes the use by one man of his economic power in such a way as to exploit another. They denounce the wage-system, as it exists under Capitalism, as constituting exploitation of this kind, and they wish to substitute for it a social determination of incomes based on service to the community instead of on the hiring and firing of labour and on its remuneration in accordance with expectations of the profit to be derived from its use.

Economic Imperialism

There remains yet another word, or idea, which must be brought into this discussion—*Imperialism*. This means primarily the rule of a State over peoples besides its own, and particularly in modern times the rule of an advanced capitalist State over backward subject peoples. Socialists regard Imperialism—or *Economic Imperialism*, as it is often called—as a characteristic development of Capitalism at an advanced stage. Lenin described it as "the last stage of Capitalism," and argued that it was the means whereby the capitalists of the developed countries maintained their appropriation of 'surplus value' in face of the tendency for the profits to be derived from exploiting their own

peoples to decline. In other words, he defined Imperialism as that stage of capitalism at which the capitalists sought to extend their markets and sources of materials in face of the limitation of both consuming power and resources in their home countries. Socialists lay stress on the importance of the struggle for colonies and for sources of exploitation as a cause of war, and on the wrongs done to the less advanced peoples in the use of their resources, not for their own benefit, but for that of foreign investors. As against this, upholders of Imperialism argue that in fact the native peoples benefit by it through an increase in their productive power and through an advance in civilisation which accompanies economic development. The more liberal among them put forward the idea of 'imperial trusteeship' on behalf of the native races, and represent colonies as territories still unfit for self-government, but advancing gradually towards it under the tutelage of the imperial power. It is hardly denied that imperialist rivalries, and especially the claims of th 'have-not' countries against the 'haves,' have been among the sources of international dispute; but in general Imperialists play down the desire for empire as a cause of war, or at any rate draw a sharp distinction between beneficent empires, which will accomplish great things if they are let alone, and greedy "aggressor" States, which covet the empires of their neighbours from sinister motives of aggrandisement.

Some Vital Questions

In this section, we have to take the words and ideas which have been summarily set down in the preceding paragraphs, study their growth and meaning, and consider which of them promise well or ill for the world's happiness under the conditions of to-day and to-morrow. Do we want to advance towards Socialism, as the Russians have done, or perhaps in different ways more appropriate to our national conditions; or do we wish to continue under Capitalism and, if so, what can we do to correct its abuses of imperialist exploitation and monopoly power? Can we simply write off Fascism, now that in Italy and Germany, its main strongholds in Europe, and also in its Far Eastern home, Japan, it has been beaten in war; or have we still to fear its recrudescence, perhaps in different forms—or even to welcome its resurrection, if we are so minded? What are we to say of the case of the Individualists, who argue that we are tending towards the Servile State, of which, they tell us, Socialism and Fascism are only variant manifestations, each set on crushing the individual under the colossal power of the 'totalitarian State'? Do we stand for Democracy, or against it; and, if for, what is the content of the

Democracy for which we stand? Is it merely a matter of formal equality before the law and of the right to vote; or does it involve the whole question of the class- and income-structure of society and of the economic as well as of the political relations between man and man?

Plan, or No Plan?

These are the basic questions; and they are all mixed up with another, which is couched in terms of social machinery, rather than of fundamental aspirations and values. Do we want a *planned*, or an *unplanned*, society? Do we want to plan our economic activities, so as to get rid of unemployment, and to decide collectively what to produce and broadly how it is to be distributed? Do we want to plan our ways of living—the design of city and country, the pattern of education and environment, the scope and arrangement of our social services, our food supply from the standard of nutritive value, and the rest?

Or rather, to what extent do we want to plan these things—for plan them to some extent we clearly must, and have been doing in the past? Indeed, this question of "How much?" arises everywhere; for it is quite possible to answer some of our urgent problems in less than all-or-nothing terms. For example, a man who wishes to nationalise the coal-mines or the railways does not necessarily wish to nationalise everything else. Nor does a man who wants some element of democracy necessarily want democracy unqualified in every sphere. There are many who are unwilling to dub themselves as either one hundred per cent. Socialists or one hundred per cent. friends of Capitalism or Individualism. We shall have to consider not only the merits of the rival ideas and '-isms' taken as wholes, but how far we are in practice free to pick and choose, as many who call themselves Liberals in politics are urging us to do. It may be that we are in a position to behave as eclectically as we please, choosing bits out of each system to make up a social mosaic of our own. Or it may be that there are limits to such mingling of plans based on different social philosophies and scales of value. But, if there are limits, what are they? How wide, or narrow, is our practical range of choice? This question too we must explore.

What we must not do is to take *Planning* as such for an end which can be pursued. Planning, in itself, is not an end but a means—and not a means to anything in particular until we have defined our ends. What, if we mean to plan, shall we be planning for? Some ideas of social organisation involve much more planning than others. We shall need to plan as much as the ideas of

social organisation and purpose which we accept require us to plan—neither less nor more. We shall have to plan in such ways as will subserve our purposes, and in no other ways. *Planning* is, in effect, not a rival theory of social organisation, but a mechanism of which those who favour rival kinds of society will make use more or less, and in different ways.

The Rise of Capitalism

Let us return then to the battle of ideas and systems from which we set out. *Capitalism* has many forms; but always and everywhere it implies three things—industries and commercial and financial enterprises carried on at a relatively advanced level; private ownership of the instruments and materials with which these businesses, or most of them, are carried on; and the employment of wage-labour on a sufficient scale to constitute a working class, or proletariat, clearly marked off from the class of capitalists. It is, of course, not at all inconsistent with the existence of Capitalism that there should exist, side by side with large-scale industry employing wage-labour, a great number of small enterprises—farms, workshops, retail stores, and so on—employing few or no hired workers, or that some industries and services should be in the hands of the State or other public bodies. When one characterises a social system, one goes by its predominant characteristics: one does not expect it to be all of a piece. The essence of Capitalism in its developed forms is the predominance of large-scale industry employing wage-labour under conditions of private ownership which make profit the leading incentive to production.

Capitalism, in this sense, came in the course of the eighteenth and nineteenth centuries to a position of world-wide influence and authority. It established itself firmly in Great Britain, in France, in Germany, in the United States—in all the countries which arrived at a relatively high level of economic and social development; and its rise was usually accompanied by a gradual democratisation of the political machinery of society through the disuse or destruction of many forms of aristocratic privilege, the extension of voting rights to larger and larger proportions of the people, and the establishment, where they did not exist before on an aristocratic basis, of parliamentary institutions for the control of government and legislation. Besides the countries which became thoroughly capitalistic, there were others, usually less industrially developed, in which autocracy and feudalism, in various forms, retained much of their power, but there grew up a capitalist 'sector,' in some cases representing a very advanced stage of capitalist technique, in the midst of a mainly primitive

agricultural and handicraft economy. Such was the situation in Russia up to the revolutions of 1917, and such, in a considerably different way, has Japan remained, after its very rapid industrialisation in the latter part of the last century, right up to the present time. On a different footing stood the more primitive countries which had undergone some form of partial industrial development under the auspices of foreign capitalists, usually with little or no effect, or even with unfavourable effect, on the living conditions of the main body of their inhabitants. In such countries—even in those in which there had been (as in India) some growth of native Capitalism—the capitalist 'sector' existed within the setting of a society not merely pre-capitalist in its essential structure and institutions but primitive, so as to present the strongest contrasts. Countries, or territories, belonging to this category must be described not as capitalistic but as subject to a large measure of capitalist control.

The Essential Features of Capitalist Society

Wherever Capitalism has existed, either as the predominant system in a country or as dominating certain essential parts of the system, its characteristic features have been (*a*) the employment of wage-labour in relatively large masses; (*b*) the development of forms of joint ownership of the means of production by companies with large numbers of shareholders and bondholders; (*c*) a tendency to pass, in one industry after another, from a state of violent competition towards one of combination and, where practicable, monopoly; (*d*) a tendency for the average scale of production to increase, but not so as, save in a few industries (and in these mainly for technical reasons), to eliminate relatively small-scale enterprises, which have, on the contrary, shown a remarkable power of survival and of fresh growth; (*e*) the determination of the volume of production and employment by considerations of expected profit, on the part either of each business acting separately or of a number acting together in combination; (*f*) the growth of systems of commercial and industrial credit operated by privately owned banks and finance houses revolving round some sort of central bank with wide powers to regulate monetary conditions; (*g*) a marked tendency to instability related not, as in more primitive societies, primarily to alternations of natural scarcity and abundance but to some inner compulsion of the capitalist system itself; and (*h*) strained relations between capitalists and workers, expressed largely in a struggle on the workers' part first to achieve the rights of combination and collective bargaining, and then to use these rights for common protection

and advancement by both industrial and political means. Everywhere the rise of Trade Unionism has been a second factor, over and above the desire to control market conditions, impelling capitalist employers in the direction of common action and giving them an added interest in controlling the State as a means of keeping the control of it out of the hands of the working-class movement and its political allies.

Under Capitalism, it is the capitalist, individual or collective, as in a joint stock company, who settles what to produce and whom to employ. He makes these decisions in accordance with his expectations of profit; and he must do so, because the penalty for deciding on any other basis would be, sooner or later, bankruptcy. Of course, the firm that has resources behind it, or can get credit, may sometimes produce at an expected loss in order to hold its labour force, or its customers, together; but it can afford to do so only if it expects conditions to improve, and in accordance with its long-run consideration of what is likely to pay best. Expected profit is the pivot on which the entire system turns. The expectation may be wrong: losses may in fact be made where profits were hoped for. But that does not affect the point, which is that in each business, and therefore over capitalist industry as a whole, expectations of profit are decisive in settling the levels of production and of the employment of labour.

Moreover, the capitalist selects his methods of production, within the range of choices open to him. He settles when it will pay him to put in a new machine that will displace labour and cause more capital to be used in conjunction with less labour in the processes of production. He decides when to invest capital in new means of production and to appeal to other owners of capital to join with him in putting up the money. He decides when to scrap plant as obsolete—or has the issue decided for him by his inability to work the plant at a satisfactory profit—and even so, it is he who decides at what point to close it down. In all these matters the capitalist is, under Capitalism, the decisive figure.

Who is 'The Capitalist'?

But who is 'the capitalist,' who makes all these vital determinations? He is, for our present purpose, the man, or the group of men, with whom rests the power of decision in each separate business, or in combinations of businesses where any of the powers have been handed over to such combinations by the individual firms. The 'capitalist,' in this sense, is clearly not simply any owner of capital—even of capital invested in large-scale industry. The big businesses of to-day have many thousands

of shareholders, the vast majority of whom take no real part in deciding on business policy. The owner of capital who invests money in a new issue of shares may no doubt be helping a new business to get started, or an existing business to expand; but much more often he is without any influence on the course of production—for even if he had not bought the shares, some financial house which had underwritten the issue would have taken them over and the result would have been just the same. The purchaser of a second-hand share in an existing concern plainly exerts, as such, no influence at all on the course of production and employment. In general, the shareholder is simply a claimant to a share in the profits, and does nothing except receive his dividends when they accrue.

This, of course, does not apply to a shareholder, or a group of shareholders, having a controlling body of shares in their hands. Such a person or group can use its power to appoint the active directors and to determine the policy of the business; and in fact businesses are controlled either by such active groups of shareholders or, in their absence, by directors or managers who are usually in effect responsible, unless things go very badly wrong, to nobody except themselves. The active controllers of big business are quite a tiny group among the many thousands of shareholders they are supposed to represent. The active controllers of smaller businesses are much more numerous, but are in many cases free only to decide what line to follow in face of economic policies which they have no share in determining—policies settled over their heads by bigger firms which control their sources of material or their markets or even the conditions of production and sale they are to observe.

The Concentration of Capital

The degree of concentration of economic power under Capitalism differs greatly from industry to industry. It is at its highest in those industries in which technical considerations rule out economic production except on a very big scale, so that the total number of businesses is bound to be small. But it may also reach a high level where most of the small businesses can exist only as sub-contractors to the big ones, or where they are able to hold their own only as long as it suits their bigger competitors not to crush them out. This may happen wherever a big business, able to produce more cheaply than smaller concerns, finds it more profitable to keep up prices and exact a monopoly profit than to lower them in order to capture the whole of its competitors' trade. Cigarettes have long provided a notable example.

Large-scale businesses and small-scale businesses continue to exist side by side, even in the most advanced capitalist countries: nor is there any sign that, even if the *average* size of businesses continues to increase, the larger concerns will drive the smaller out of the market. There is, however, every sign of a double tendency towards the concentration of power and the weakening of the force of the competitive principle. Control over economic policy tends to fall into the hands either of big concerns which dominate particular lines of production, or of financial groups which dominate the producing agencies, or again of cartels or trade associations which enforce on nominally independent businesses common lines of action designed to limit competition. These tendencies operate internationally as well as nationally, in the spheres of raw material supplies and of the heavy industries particularly; but in the lighter industries competition still retains much of its vigour outside the home market. It becomes, however, to an increasing extent a competition rather between organised national groups, each backed to some extent by its own Government, than between individual firms.

In most spheres, prices are no longer left to be settled by the higgling of an unregulated market. They become matters for deliberate choice, the results of policies deliberately adopted by big firms or associations, so that it becomes more usual, in many lines of business, for output to be adjusted to prices than for prices to be adjusted to output. There are of course limits to this tendency; for only the absolute monopolist is in a position to fix what price he pleases and leave output to be settled according to the demand which exists at the chosen price, and even the absolute monopolist cannot stand out indefinitely unless the commodity he controls is in very inelastic demand. But to a substantial extent it is possible, short of complete monopoly, for a fairly inclusive body of firms to select its price, within a certain range, and to produce the output which can be sold at that price—neither more nor less.

Capitalism and the State

Capitalism, under these conditions, has looked increasingly to the State for backing, not only in pushing sales abroad, but even more in protecting its home markets so as to give it freedom to select the prices that suit it best. In order to secure this backing it must control the State, or at any rate secure Governments which are prepared to look favourably on its claims. Thus, whereas the capitalists of the Victorian era on the whole interested themselves in politics for the purpose of limiting State intervention to the police function of the protection of property, modern Capitalism

has turned more and more to the State for positive promotion of its interests and, in the name of 'industrial self-government,' has claimed from the State the right to exercise compulsory powers of economic regulation. Capitalists are of course opposed to the direct conduct of industries by the State, or to external regulation of their proceedings by the State except on terms which they themselves prescribe. But they no longer ask the State merely to stand aside: even while they are expressing their dislike of State control, they are continually invoking the State's aid for their own policies of economic regulation.

As against this the representatives of the working classes, quite apart from their adhesion to Socialist gospels of public ownership and control over industry, are demanding State intervention of a different sort—for the protection of wages, the limitation of working hours, the enforcement of improved conditions of employment, the development of the social services, and, not least, the maintenance of full employment or the guarantee of a living income when employment fails. These counter-pressures are not wholly resisted by the capitalist groups, which in most advanced countries have regarded some concession in these fields as a necessary insurance against revolution or the pressing of definitely socialist demands. Even in the United States, where Capitalism for a long time stood out strongly against such concessions, the upsets accompanying the deep depression of the 1930's brought considerable instalments of industrial legislation of a kind already well-established in Great Britain, Germany, and various other developed capitalist countries. It was, however, always an implied condition of such concessions that they should effect no real transfer of economic power and should not be too burdensome to industry. Accordingly, social reforms conceded by way of insurance against structural change were commonly so arranged as to be financed partly by levies on the workers' wages, and were often accompanied by measures which helped the capitalist businesses to pass on to the consumers the additional costs involved. It was found that in practice very considerable social reforms could be introduced in these ways without any adverse effect on the level of profits; and, especially in Great Britain, capitalist opinion became reconciled to increasing doses of State intervention in the field of social reform, as long as there could be, at the same time, an increasing toleration, or even public endorsement, of monopolistic trade practices and an increasing State intervention for the protection of capitalist industry at home and the promotion of British trading interests overseas.

Modern Capitalism is, then, not, like the Capitalism which came in with the Industrial Revolution, a power standing apart from the State and looking to the State only for a general safeguarding of the rights of private property, but a power expecting from the State much more extensive support for its ventures, and therefore seeking to control the State in its own interests. It has had to do this, in view of the growth of parliamentary democracy, by influencing the political parties which depend for their power to rule on popular backing; and, until Socialism became a political force, it was able to influence both the leading parties (or more than two, where more were of sufficient weight to be taken into account). Capitalism stood behind both Liberalism and Conservatism in Great Britain, gradually shifting more of its weight over to the Conservative side as it came to need more active intervention on its behalf, but still keeping a foot in the Liberal camp, as long as there was such a camp in effective existence. In the United States, capitalist politics still preserve this shape, because no effective Socialist party has yet come into being; but even there a considerable shift has occurred in the direction of Republicanism, in proportion as the Democratic Party has shown any tendency to champion, like the British Liberalism of 1906, the cause of the common man. In Great Britain, the eclipse of Liberalism has ranged the forces of Capitalism almost solidly behind the Conservative Party. In other countries, especially where there are several parties standing for particular national or religious groups, Capitalism still acts through and upon these various parties, and upon the coalition Governments that are based on them.

Capitalism and Fascism

In proportion as Socialism becomes a political force threatening Capitalism at its roots, the need for Capitalism to make sure of its hold upon the State becomes greater. It was with this idea that, first in Italy and later in Germany, capitalists who feared the advance of Socialism gave subsidies to Fascism, aiding Mussolini and Hitler to build up their black-shirted and brown-shirted private armies and their demagogic parties as the enemies of democracy. The capitalists who acted in this way, and thus helped the Fascists and Nazis to gain political power, began of course in the belief that the power they subsidised would remain amenable to their control, and would do the job of smashing the Socialists and democracy for them without developing any policy of its own in conflict with their desires. In the event, the job was very thoroughly done, and the capitalists of Italy and Germany

were saved, for the time, from the threat of Socialism. Nevertheless, things did not fall out wholly in accordance with their expectations; for, especially in Germany, Fascism in power proved to have a will of its own, by no means wholly consistent with the wills of the would-be masters. The capitalists were left in possession of the means of production, and even with the assurance of being able to operate them at a continuous profit. They were relieved from the pressure of working-class demands; for the State completely liquidated the economic as well as the political organs of the workers. But they were confronted with a State power which, though it used them as its agents and safeguarded their position, substituted its ends for theirs, and harnessed them to a machine of which the purpose was to promote, not private profit, but national and imperial aggrandisement. The capitalists found themselves caught up into States organised, or organising, for total war; and it is of the essence of such organisation to require extensive State control and a subordination of the private interests of individuals and groups, even the most influential. Capitalists can stomach well enough this kind of control as a temporary necessity, in actual warfare; but they found in Fascism a new mode of action which required the methods of war continually, even in time of peace.

Nevertheless, Capitalism did not revolt against Fascism. Indeed it could not; for no revolt could have succeeded without the support of the working classes, which the capitalists did not dare to invoke. Most of the capitalist leaders greatly preferred Fascism, with all its inconveniences, to a renewal of the danger of Socialism; and in general they continued to give it support even when they could see clearly the direction in which it was moving.

What Fascism is

It is profoundly misleading to regard Fascism *merely* as a form of Capitalism—merely as a capitalist device for defeating Socialism when it can no longer be held off by orthodox parliamentary methods backed by the power of wealth. This is, of course, one aspect of Fascism; but it is a long way off a complete view of it. The driving-force of Fascism cannot be explained in purely economic terms. It is, in its basic notions, nationalist and militarist rather than capitalist. Its aim is not to exploit the poor of its own nation, but to make its own nation an exploiter of other nations. It has no objection to exploiting its own poor, where such exploitation appears to serve its nationalist and militarist ends; but its economic alliance with the capitalists against the workers arises primarily because the workers tend to be

internationalist and pacific in outlook and to value 'butter' above 'guns,' and not because the Fascist leaders are ardent believers in the system of profit-making. Fascism cannot easily win power except where it can find a militarist as well as a capitalist class to help it on its road to power. This partly explains its failure to make any substantial headway in Scandinavia or in Switzerland, and its weakness in Great Britain, in comparison with its success in Spain and in Eastern Europe, and, even more, in Japan, as well as in Germany and Italy.

No doubt, Fascists and Nazis, in their appeals to the people for support, were often lavish with economic promises. They promised to protect the 'small man' against the trusts, even while they were taking money from the trusts for protecting them against the workers. They promised careers to the educated or half-educated, who regarded themselves as entitled to positions of superiority, but could find none because of the depression. They promised work to the unemployed, as well as special privileges to all who joined them. These economic promises, however, were not aspirations of Fascism, but bribes to recruit support for it. Its aspirations were not economic, unless we include as economic aims the desire to conquer and to loot on the grandest possible scale.

Fascism, in short, was not in essence an economic movement, but a nationalist, imperialist and militarist movement using economic inducements to reinforce its primary appeal. It found supporters in millions largely for economic reasons; for the depressions of the inter-war period bred the popular discontents upon which it was able to thrive. There were Fascists who were interested primarily in its economic aspects—the Strassers, for example, as well as some of its capitalist backers. But these were not its leaders, or able to control it so as to divert it from its essentially militarist attitude and policy.

Even, then, if we regard Fascism, in one aspect, as Capitalism's last gamble in face of the advance of Socialism as a world-wide force, we must realise that, in backing Fascism, the capitalists were invoking a force external to themselves, with which they hoped to reach a satisfactory accommodation, and were not constituting a new kind of capitalist State, responsive to capitalist ideas and accepting capitalist objectives. Fascism was, if not an entirely new kind of social organisation, at any rate not merely a continuance of the capitalist kind of State in a more developed form. It was a throw-back from Capitalism to militarism, but under conditions which produced a new type of militarism, based on a popular, demagogic appeal, and reinforced by the enormous

weight of modern propagandist techniques founded on modern psychological discovery. It could not help being at the same time an economic movement, or having an economic policy; for it needed both to organise the economic foundations of military strength, and to reinforce its nationalist and militarist appeals with an invocation of economic discontents and aspirations. But its roots are to be found in predatory nationalism, and not in the threatened capitalism which gave it the means of deluding the people.

Forms of Socialism

The Socialism which Fascism arose to defeat also calls for analysis. Why did the Fascist appeals wean away from Socialism large sections of the Italian and German working classes, even before there had been time for intensive propaganda in schools and youth movements to train up a new generation steeped in Fascist ideologies? The answer is to be found largely in the divisions which rent the Socialist movement asunder—in the hesitations of one sort of Socialists in face of situations which called for decisive and courageous action, and in the failure of another sort of Socialists to understand the necessary conditions of Socialist action in countries accustomed to parliamentary methods of government, and entirely unaccustomed to the techniques of underground revolutionary activity. To the Russian Communists, or to most of them, in the period after 1917, it seemed axiomatic that their own revolution could survive only if it broadened out into a world revolution, covering the great capitalist countries, and also that the world revolution would have to be conducted by methods closely similar to those which had brought them to power upon the ruins of the Czarist empire. Consequently, they regarded as traitors to the Socialist cause all who would not pursue the aim of world revolution by the method of interconnected national revolutions organised under a common leadership, which they felt themselves, as the architects of victory in the Soviet Union, equipped to provide. Communist policy after 1917 was stultified by the pursuit of this policy, which seemed to the Russian leaders, and to those who followed them outside Russia, the only policy true Socialists could pursue.

On the other hand, the leaders of the parliamentary Socialism of Western Europe, including Germany, envisaged their task in an utterly different way. They had built up democratically organised parties which were claimants to political influence: they were accustomed to general elections, fought on the basis of programmes which were made up rather of socialistic reforms

than of Socialism itself; and they had come to regard Socialism, not as a new system to be installed at a blow, but rather as a tendency to be advanced gradually by piecemeal measures which would transform society by stages. This was as natural an outcome of the conditions of Western parliamentarism, based on a very extensive franchise and on representative government, as Russian Socialism was of the conditions of autocracy in Russia. The Russian view was the more Marxist, because in the years before 1914 conditions in Czarist Russia were closer than conditions in Western Europe to the conditions which prevailed over most of Europe when Marx and Engels formulated their essential doctrines. In 1918, however, the parliamentary gradualism of the European Social Democratic Parties stood badly in the way of courageous action wherever a revolutionary situation appeared. In Italy as well as in Germany it incapacitated them for seizing their chances and exposed them to the perils of counter-revolution. The Italian Socialists half-tried to make a revolution and then drew back, and were presently laid low by Mussolini. The German Socialists tried to construct a democratic parliamentary Republic on the ruins of the Bismarckian Empire, and in pursuance of this aim invoked the forces of militarist reaction to defeat their own revolutionary left wing. Their excuse was that the victorious Allies would not have tolerated real Socialism in defeated Germany; but that was by no means the whole story. The truth was that the German Socialist leaders feared revolutionary Communism fully as much as German reaction; and in their attempt to oppose both they disastrously divided the German working class and, aided by the grave errors of Russian Communist policy, finally let in Hitler and compassed their own destruction. Let us admit that their situation was difficult. The fact remains that their errors were glaring; and that these errors arose from something more than the peculiar difficulties of the German situation seems to be indicated by the weakness displayed by other Western Socialist Parties that can plead no such excuse.

In effect, the Socialist Parties of Western Europe had not expected to achieve power for a long time, and were not ready for it when their chance came. The Russian Socialists, with no prospect of a gradual victory, to be won by convincing a democratic electorate and by peaceful stages, had necessarily thought in terms of sudden revolution, which had actually broken out and been repressed in 1905. It would have been futile, before 1914, for the Socialists of Western Europe to think or plan in these terms; for there would have been no possibility at all of carrying with them any substantial part of the electorate of their countries.

The fault of West European Socialists after 1918 was not that they refused to pursue a quite impracticable policy of revolution by violence, but that they showed too little capacity for adapting their pre-war strategy to the new conditions, varying from country to country, with which they were called upon to deal. Above all else, they failed to do their part towards getting on terms with the victorious Socialists of the Soviet Union, though this was the necessary condition for the existence of a really united movement in their own countries. It must be admitted that the Socialists of the Soviet Union were very difficult to come to terms with, as long as they continued to pursue their impracticable ideal of world revolution and to denounce as traitors, or 'social Fascists,' all who rejected their leadership. But, as this particular phase of Soviet Union policy was transcended (the elimination of Trotsky being of course the salient point), accommodation did become easier: yet advantage was not taken of the opportunity until much too late, and even then only with half a heart.

In effect, the Socialists of the Soviet Union and of Western Europe never succeeded in understanding each other, or the different situations with which it was necessary to deal in different areas. The disastrous consequence was that there were Western Communists who even professed to welcome the advent of Fascism in Germany as clearing the way for Communism by eliminating the Social Democrats, as well as Social Democrats whose hostility to Communism blinded them to the need for united working-class resistance to the Fascist danger.

Communism and Social Democracy

Yet the difference between the Social Democracy of the West and the Communism of Eastern Europe was not really one of aim. It was rather a difference of method, based on national traditions and experiences. It would have been impossible to establish Socialism in Russia except by methods such as the Communists pursued, because there was no democratic parliamentary mechanism, no administrative mechanism, and no tradition of peaceful change that could be taken over and used for purposes of Socialist construction. Equally there was in the West no oppression, comparable with that of Czarism, to create a tradition of underground revolutionary activity; no autocracy, ready to collapse entirely as soon as its central controlling mechanism was broken up; and no such crude opposition of privilege and unprivilege as characterised the Czarist political and economic system. The Socialism which was the declared

objective of Communists and Social Democrats alike was essentially the same: the methods and the machinery by which its achievement was pursued were, and were bound to be, radically different. The misfortune was that on neither side did enough Socialists realise either the unity of purpose or the reasons for the differences in method to make accommodation practicable.

Socialism, both in Russia and in Western Europe, meant essentially the supersession of the profit motive as the determinant of productive activity and consequently the establishment of public ownership of as much of the means of production and distribution as was necessary to make production and distribution matters for social determination in the common interest. It meant ensuring that the output of wealth should be settled by the availability of man-power and other resources of production, and not by the prospects of private profit. For Western Europe, this meant mainly the elimination of unemployment due to the trade cycle, to structural maladjustments of industry, or to restrictive monopoly practices: for the Soviet Union it meant a deliberate planning designed rapidly to transform Russia from a backward country with small *enclaves* of industrialisation into a thoroughly modernised country, abreast of technical development and armed with an economic organisation capable of exploiting modern scientific techniques. For Western Europe it was mainly a question of taking over an existing industrial system and adapting it to the needs of a democratic society; for the Soviet Union it was a matter of making a new economic as well as a new social order.

Socialist Planning

Planning was indispensable for either purpose. But for the Soviet Union planning had to be much more complete and drastic in its methods than was requisite in the more advanced countries of the West. The Russians had to plan practically from nothing: the Western countries needed only a co-ordination and amendment of already existing economic structures. Above all else, the difference was that the Russians needed, out of a very low national income, to set aside a great deal from present consumption for the accumulation of new capital instruments; whereas in the West the problem was rather one of providing enough consuming power in the hands of the mass of the people to afford an outlet for the products which industry was already in a position to produce. The Soviet Union never had to bother about shortage of markets: it was faced with a continuous scarcity of consumable goods. The Western countries, on the other hand, were accursed with the inability to marry with the

needs of the people the producing power which they actually possessed.

This difference led to additional misunderstandings. Western Socialists, accustomed to thinking of situations in which jobs were short, could not understand the practices of a society in which everyone who avoided doing his share of labour was manifestly failing in an essential social task. Thinking of conditions in which too many people scrambled for too few jobs, they were disposed to regard compulsion to labour as unjustifiable serfdom rather than as the enforcement of a reasonable obligation of citizenship. Accustomed to Trade Union bargaining with profit-seeking employers for higher wages and better conditions, they found difficulty in appreciating the position of Trade Unions which could ask for more only at the expense of others equally entitled to share in the national dividend. Habituated to dispersed responsibility, to local and sectional autonomy of action over a wide field, and to the constant compromises and accommodations of the parliamentary system, they were repelled by the centralisation, the strong party discipline, and the rigidity which were unavoidable in a society which had to face the grim necessity of making a new start in almost everything, in face of the complete collapse of the highly centralised autocracy which had been overthrown. The misunderstandings on both sides were endless, and of course they led to endless recriminations and to a regrettable failure to appreciate the underlying unity of purpose.

Yet, though leaders disagreed and denounced one another, the fundamental sympathy of the workers of Western Europe for the Soviet Union was never shaken. It was profound, instinctive in its basis, and most strongly felt at moments of serious crisis. It availed to prevent any irreparable breach between the Socialists of Eastern and Western Europe, though not to avert most serious internal divisions among the workers in particular countries, especially Germany and France.

Planning for Employment

In the capitalist countries, as I have said, the central issue came to be, more and more plainly, the prevention of unemployment and the use of the available resources to secure the highest possible output and its distribution in such ways as would remove unnatural restrictions on consuming power. Socialists, pursuing this aim, had to demand planning, on both the national and the international plane; for it was necessary to promote planned exchanges between countries in order that planned national production might yield satisfactory results. Socialism thus came to be

identified with planning, though planning remained no more than a means to the realisation of the Socialists' aims. In Russia, planning had come to mean the entire control by the organs of the State of the business of production and exchange. It could mean no less, when it was a question of building up from the bottom an entirely new economic order, in a country in which there existed no going concerns that could be adapted to fit in with the requirements of the new society. On the other hand, in the West it was a question of how much, or how little, economic planning was needed to bring about a condition of 'full employment' and of market outlets sufficient to absorb all that could be produced. This question admitted of varying answers. Some believed that the thing could be done, in the main, by state control of finance—by state action to maintain capital investment at a sufficient level, accompanied by measures of redistributive taxation and income maintenance through the expansion of the social services. Others, of whom I was one, argued that such measures would not suffice without the social ownership of certain of the main capital-using industries or without effective steps to prevent monopoly practices and to control the general policies of important industries which were left in private hands.[1] My contention was based partly on the prevalence of restrictive practices in the key industries, and partly on the need for drastic structural readjustments to bring the British economic system into line with modern requirements based on a more even distribution of consuming power.

Planning and Democracy

This question of the amount of planning needed to bring industry into conformity with the needs of democracy is, of course, closely bound up with the question of democracy itself. Planning, as we have seen, is a means and not an end; and a community needs only so much planning as will suffice to further its social ends and to remove the obstacles that stand in the way. Among these ends are democracy and freedom—two concepts which are closely allied but not identical. Freedom has indeed two essential aspects—freedom from imposed subordination which makes the individual man a means, instead of an end, and freedom from being unnecessarily badgered about by equals, as well as by superiors, acting in the name of society. Democracy is a way of safeguarding the first of these freedoms; but it may not safeguard the second, which is at bottom a matter less of laws than of social habits and traditions.

[1] See my book, *The Means to Full Employment*, where this question is fully discussed.

Economic Liberalism: Qualities and Defects

The tradition that the State, apart from acting as the protector of property, should interfere as little as possible in the economic field carried with it some presupposition against interference in other fields as well. The climate of economic liberalism was favourable to letting things alone in religion, in education, in personal conduct, in social organisation and voluntary association, in the conduct of the Press, and in many other spheres. It did make for a large measure of liberty in all these respects; but it made for a liberty that was in practice graduated in accordance with differences of wealth and worked out very differently for the rich and for the poor. The rich had the power to use their wealth for pushing their own opinions: they had open to them a vast range of activities and enjoyments, from unrestricted travel to the pleasure of ordering other people about much as they pleased. The poor, on the other hand, enjoyed liberty only within the restraints imposed upon them by lack of means, and under the additional handicap of perpetual insecurity. If they had no jobs, they had to demean themselves humbly in order to get the bare means of life. If they had jobs, they had to demean themselves humbly in order not to lose them. Employment at wages was treated not as a social right, but as a favour on the part of the employer, who acquired by granting it a large authority over the lives of his employees. Trade Unionism developed largely as a protest against these conditions of social inferiority, and did much to render them less irksome in practice. But Trade Unionism could never get rid of the fundamental drag on the freedom of the poor—the insecurity under which they had to live.

In effect, the social freedom which was the accompaniment of economic liberalism in the advanced capitalist countries was all very nice for those who were well-to-do, including the main body of the middle classes: it was much less nice for the working classes, who were the most numerous part of the people. It was something, even for them; but its positive advantages were largely offset by insecurity and by the undemocratic conditions of employment which were the inevitable outcome of insecurity.

The Discipline of Insecurity

They were the inevitable outcome; for insecurity made possible an industrial discipline, enforced by the employer without the intervention of the State, that would have been quite impossible had it not been supported by the fear of the sack. The demand for full employment on the part of the working classes is a demand not only for assured continuity of income but also for that

democratisation of economic relationships which only the assured continuity of income can give. It is easy to understand why many employers, asked whether they support a full employment policy, reply by asking how they are expected to keep discipline in their factories if nobody is any longer afraid of getting the sack.

The answer, of course, is that they will not be able, under conditions of full employment, to keep up the discipline of fear, and that there will have to be a new kind of discipline, more consistent with democratic principles of human equality, in order to get the world's work done when insecurity has been removed. I do not mean by the removal of insecurity the concession to anyone of a right to retain his job even if he is inefficient at it. No such thing is in question. I mean that, under conditions of full employment, a man who is dismissed from one job will not stand in fear of real hardship for himself and his dependants, because there will be another job waiting for him—though not necessarily as good a one as he has lost. This, and no more than this, is what full employment involves.

If it is agreed that real democracy and the real enjoyment of a reasonable amount of freedom are impracticable without the removal of insecurity by the achievement of a condition of full employment, it follows that there must be enough economic planning to make full employment a reality. It also follows that, if the discipline of fear is to be done away with, or greatly weakened, and the employer is not in a position to find a substitute for it, the State must step in to fill the gap. This can be done in two ways—first and foremost, by creating a public sentiment in favour of doing a decent day's work as a matter of social obligation and impulse, and secondly, to the extent to which this is not enough, by imposing on the deliberate slacker penalties that will not fall on his innocent dependants. It is with this 'secondly' that there enters into some people's minds the fear that full employment may usher in not an enlarged freedom but the 'Servile State.'

Direction of Labour

War experience has, of course, done something to enliven this fear. The worker in the essential industries gained during the war an assured income—and the gain was greatly valued—but he lost his freedom to move from job to job except under many restrictions, and he also became subject in the last resort to prosecution for slacking or absence from work. These penal provisions were much disliked—mainly, I think, as placing men under legally enforceable subordination to a private, profit-seeking employer,

but also partly in themselves. It is therefore pertinent to ask how far the planning needed for full employment and the democratisation of industry is likely to involve a continuance of penal discipline in the hands of the State, a tying of men to particular jobs on account of their national importance, or any form of 'direction of labour.'

This question has two parts. First, will the State, in order to secure the right distribution of man-power under conditions of peace, need to order men to particular jobs or to prevent them from shifting from job to job as they please, subject only to the vacancies open? The answer is surely 'No.' Compulsion was necessary in wartime because of an all-round shortage of labour and the need to fill up the factories quickly for an intensive war effort. In peace-time there can be no such all-round shortage; for the purpose of planning will be to arrange that there shall be just enough jobs to go round, with a small allowance for unavoidable friction. The right way of securing the desired distribution of this man-power among the various employments will be by the offer of inducements, not by imposing penalties; and the right way of holding men where they are most wanted will be by making it worth their while to stay.

The Slacker under Full Employment

The second part of the question presents more difficulty. Will it be necessary for the State, in order to get work reasonably done, to replace the employer's discipline by its own penal provisions against the slacker or the undisciplined? Again I answer, 'No.' The most the State will need to do will be to deny the guarantee of income to those who are dismissed for these offences, with full proof offered. The dismissed man, after being thus assessed not by his employer, but by his peers, will be free at once to take another job, and will have no difficulty in finding one, though it may well be of an inferior grade. He, but not his dependants, will lose income while he is out of work; and he may lose income permanently if he is relegated to a lower-paid task. He will, however, have every inducement to do better, in order to regain his lost status; and we may reasonably expect that the opinion of his fellow-workers will be against him if he persists in slacking under a system which is designed to ensure that the advantage of each man's labour shall accrue to the common good.

There may, no doubt, be difficulties of transition from the old discipline to the new; for it will take some time to give the new public opinion in favour of doing good work its full force. There

will also be, at all times, some workers whose slackness or inefficiency arises out of physical or mental defects that cannot be put right; but this is the case under any system, and will be least the case where the levels of physical and mental health are most the community's care.

Workshop Opinion and the Climate of Industrial Democracy

The creation of a new climate of workshop opinion is obviously the crux of the matter. This will not be achieved unless it becomes really and demonstrably true that production is organised as a social service and not merely as a by-product of the search for profit. If it is made plain that the industries of the country are working to a production plan designed for the fullest possible satisfaction of the people's real needs, and that rewards are being made as far as possible proportionate to real services, and not to property claims, a very powerful public opinion in favour of good measure in work and workmanship will soon arise, as it has arisen in the Soviet Union. It will then matter relatively little whether a man is working directly for the State or for a private employer under conditions sanctioned by the State and forming part of the public economic plan. Perhaps the State will get the better work done for it—certainly not the worse: perhaps there will be little difference and the quality of the response will vary with the human quality of management in each factory, whether it be public or private or Co-operative. Where there is intelligent management, alive to the human aspects as well as to the technical, I have no doubt the response will be entirely adequate, as soon as the initial difficulties have been overcome.

The development of this new public opinion is the only basis on which democracy can practically be established in the field of work. The case for workers' self-government in industry which I have argued all my life rests upon this indispensable foundation. As men acquire a sense of responsibility and power in respect of the work they are doing as the agents of society, they become capable of organising that work on a basis of democratic fellowship and co-operation. Every one of us has seen this happen, in voluntary activities of one sort or another: almost everyone who has taken part in such activities has at some time borne testimony to the high capacity of his fellow men for good team work, including the ready acceptance of requisite leadership, where their feelings of loyalty and obligation are aroused. This is a field in which freedom can blossom, lightening the hours of labour by the sense of harmonious and well-directed effort and achievement. This, as well as the disappearance of the constant shadow

of insecurity, is the boon which a democratically planned economic order can confer upon the ordinary man.

The notion that a planned order means a restriction upon human freedom is mistaken. It is a notion no doubt readily entertained by well-to-do persons who have never had to work under irksome discipline for purposes in which they felt themselves to have no share. But it is a false notion, quite unlikely to be accepted by those to whom this very experience has been an everyday matter. Ask such men which state of affairs will give them the greater freedom—an unplanned order, in which they have to work under an imposed discipline for the profit of others with no security of finding another source of income if they lose their jobs; or a planned order, in which they are sure of finding jobs under fair conditions, free to change them at will, sure that their labour will be directed to socially beneficial use, and able to organise in fellowship and democratic co-operation the conditions of their own work. I think there can be no doubt what the common answer will be.

CHAPTER II

THE RISE AND DECLINE OF CAPITALISM—THE BASIS OF SOCIALIST PLANNING

CAPITALISM, AS THE WORD is ordinarily understood, is a system of production for profit under which the instruments and materials of production are privately owned and the work is done mainly by hired labour, the product belonging to the capitalist owner or owners. Capitalism thus implies a class of owners on the one hand and a class of hired workers on the other, the former supplying capital and the latter labour. The owner-capitalist decides what to produce and what labour to employ: the hired worker surrenders his labour to the capitalist in return for a wage or salary, under a contract, written or unwritten, regulating both the wage and the hours and conditions of work. The labourer can be at any time discharged by the capitalist, subject to any provision for notice expressed or implied in the contract, which is at law an individual bargain between the capitalist and each workman he employs.

The capitalist thus risks his capital, by taking his chance of the profit or loss on any act of production which he sets on foot. The labourer's risk is that of losing his job, or of being employed only on short time, or of having to accept poor conditions of employment in order to keep his job.

Actually, there has never been a capitalist system so simple as this rudimentary description seems to imply. In the first place, capitalist employers at almost every stage of capitalist development operate to some extent with other people's capital besides their own. Not all owners of capital are directly employers: many prefer to lend their capital at interest to active capitalists, or to be sleeping partners in a business which they take no part in running. This was so even before the development of joint stock enterprise in its modern form; and of course in modern joint stock companies the divorce between ownership and management has been carried a very long way, so that in some companies, e.g. railways and commercial banks, there may be practically no managing owners, the entire business being run by salaried managers under the almost nominal control of a board of directors, who may themselves not be substantial owners of the capital.

Secondly, especially in the smaller businesses, the owner, in addition to providing part of the capital, normally contributes his own labour of supervision, or even, in very small businesses, works side by side with his employees. In such cases his profit is a return partly on his capital and partly on his labour; but there is no way of deciding how much of his total reward is attributable to either factor. Even where he nominally gets a salary for managing his own business, apart from what he draws on his capital invested in it, the distinction is usually quite arbitrary.

Thirdly, some wage-earners and some salary-earners, though they get the main part of their incomes from employment under contract, possess some capital of their own, invested either in the businesses in which they work or, much more often, elsewhere. There is no absolutely clear-cut line between hired workers and owners of capital. Or again, a man may spend part of his time working for an employer and part working on his own as an independent worker, neither employing nor employed.

Fourthly, it is not essential to the idea of capitalism that *all* the instruments of production shall belong to the employer. A workman may own his own tools and sometimes even his own workplace. In the earlier stages of capitalist development it was quite common for the workpeople to work in their own houses on machines owned by themselves (or sometimes hired from a separate class of machine-renting capitalists). Sometimes, in these early stages, the workpeople bought their own materials and sold them to the capitalist when they had worked them up a stage. In such cases they formally sold not their labour power but a product, which the buying capitalist then passed on to a further stage of production or arranged to market, making his profit on the difference between the prices at which he bought and sold. But as machines became more complex and expensive and used up larger quantities of material, it became more general for the capitalist to own both machines and material, paying the worker a price for his labour, even if he continued to work in his own home. Then, as power-production advanced, it became more economical to group the workers in factories where the power could be applied to a number of machines at once, and wage-employment in establishments owned and equipped by the capitalists became the usual system.

Three Stages of Capitalism

It has often been said that in the modern world capitalism has passed through three successive stages—merchant capitalism, industrial capitalism, and financial capitalism. This is broadly

true, although of course the stages overlap. Before the advent of power-driven machinery, it usually did not pay to group the workers together in large masses. Some trades had even then sometimes to be conducted on a large scale—big mines for example, or trades carried on by means of secret processes or machines, or sometimes finishing trades needing direct and constant supervision. But in general, where no elaborate plant was needed, the scale of production remained small, and the chief advantages to be gained from large-scale operations were in marketing goods, above all in markets overseas but also wherever goods had to be sent considerable distances to find customers. Any considerable local specialisation in making particular kinds of goods involved distant markets, and therefore afforded an opportunity for the growth of merchant businesses employing large capitals.

Merchant Capitalism

The merchants formed the first distinctive capitalist class. They not only transported finished goods to distant markets, but also bought raw materials and handed them out to a succession of manufacturers who put them through successive stages of production in their own homes or in small workshops. They brought together at the finishing stages the work of many different crafts, and sometimes undertook a part of the preparation of materials, such as wool, or of the final stages of manufacture, under their own supervision, in workshops attached to their warehouses. Beside the great merchants most industrial employers were very small fry, though there were a few who worked on a large scale, and some factories were already in the hands of considerable companies of rich men. For the most part the industrial employer was still no more than a master-craftsman, and to the extent that he became more he had often to look for capital and credit to the merchant who bought his wares. The merchants became financiers and bankers for industry as well as dealers in goods; and presently, as we shall see, some of them gave up being merchants at all in the ordinary sense and became simply bankers or dealers in trade bills, engaged entirely in the financing of foreign and to some extent of domestic commerce.

Industrial Capitalism

Gradually this situation was altered, under the combined impact of newly invented machinery and the steam-engine. In some industries there was an intermediate phase, important in England in the eighteenth century, during which machinery

made great advances chiefly on a basis of water-power. Steam-engines were in use for raising water by the beginning of the eighteenth century; but the early Newcomen engines could not be used directly for turning the wheels of machines, and had besides a very high coal consumption, which made them expensive to use at a distance from easily gotten coal. James Watt's improvements both reduced coal consumption enormously and, by the application of the rotatory motion, made possible the direct driving of the machines by steam-power. But this was not till more than two-thirds of the century had gone by. Only from about 1780 did the improved steam-engine begin steadily to displace the water-wheel or the horse-powered gin as a means of turning the factory wheels. Thereupon it became profitable to gather together large groups of workers in establishments equipped with steam-power. The factory age set in: the wage system was radically transformed: the era of industrial capitalism began.

This new era involved the rise of a new class—the factory-owning capitalists whom Cobbett and his fellow Radicals of the early nineteenth century so thoroughly disliked. Only in a few cases did the merchants turn themselves into industrial capitalists: for the most part the factory employers were new men who came from farm or trade or from the ranks of the master craftsmen or skilled workers, scraped together enough money to buy a few machines, often borrowed more from the merchants who were their customers, and enlarged their factories year by year out of the profits made by exploiting the new means of production. The typical employer of the Industrial Revolution was not a rich man, though he sometimes had rich backers, and, if he was successful, wealth soon came his way in abundance in view of the great differences in efficiency between the new ways of production and the old. As long as the new power-driven machines supplied only a part of the market, those who possessed them could reap large profits based on their lower costs, gradually squeezing their less up-to-date competitors out of the market, but still able, save at times of deep depression, to sell at prices well above their own costs.

As the new machines became more numerous and were rapidly improved, competition set in among the new capitalists themselves. The old handicraft producers were driven out, or at best could get work only at starvation returns in periods of brisk demand—and in bad times not at all; and the new factory owners had to keep their plant continually up to date on penalty of losing their trade. Competition in the industries most affected by

the new methods—above all, cotton—grew ruthless in the extreme; and for every capitalist who made a fortune several failed and were driven back into the ranks of the working classes. Such conditions led to desperate attempts to keep down the cost of labour by exploiting the work of women and children, by making hours of employment almost unbelievably long—a working day of fourteen hours was nothing out of the way—and by keeping wages down to the lowest possible point. The employers justified these methods both on the ground that they were necessary for the accumulation of capital out of profits, and even for their own continuance in business in face of the severity of competition, and on the ground that they cheapened production and thus gave back to the workers as consumers the benefit to which they were entitled as output increased. The bitterness of the industrial conflicts of the first half of the nineteenth century is intelligible only to those who understand these conditions—and have perhaps seen conditions not widely different from them operating in the industrialised sectors of backward countries even to-day. The violent hostility of the early industrial capitalists to Trade Unionism and to any form of wage-fixing by either the Trade Unions or the State; to Factory Acts and Trade Union attempts to limit the hours of labour, and indeed to any limitation on their arbitrary powers over those whom they employed—all these arose largely out of this atmosphere of intense and ruthless competitive struggle among the employers themselves.

The Age of Competition

The age of industrial capitalism was, then, one of almost wholly unregulated competition between capitalist firms which were mostly small by modern standards, and at any rate much too small to exert any monopolistic control over prices. This new capitalism was extremely individualistic, and under it prices were adjusted by a market struggle not unlike that which figures in the orthodox textbooks of Political Economy. The effect undoubtedly was to cheapen goods at a remarkable rate by diminishing the real costs of production in terms of human labour. There were at that stage few industrial processes which needed to be carried on in very large units in order to achieve a high degree of efficiency, or called for the application of very large masses of capital under unified control. There was room for active competition between many firms in the same line of business without hindrance to the use of the most efficient methods; and in general these firms felt under no impulsion to combine either to raise prices or to limit the quantities produced. There were times when bankruptcies

were very numerous; for trade was liable to intense fluctuations from year to year, or even from month to month. But neither in good times nor in bad times did it suit the more efficient producers to make common cause with their worse-equipped competitors. In good times, it suited them to go all out to expand their operations; and in bad times they stood the best chance by cutting prices of keeping their factories fully employed.

Moreover, the general outlook of the period on the prospects of trade and industry was highly optimistic. The capitalists of the countries which had advanced furthest in applying mechanical methods were able to capture the markets of more and more countries for their wares, driving out the more primitive native producers and exchanging their cheap manufactures on favourable terms for the foodstuffs and raw materials of the less advanced areas. To men so placed there appeared to be no limit, and only temporary checks, to the expansion of the market, provided only that they did not allow themselves to be outstripped in cheapness. The restrictions imposed by low wages on the home market for ordinary consumers' goods did not worry them, because their eyes were set more and more upon the ends of the earth, where new markets were continually being opened to them and native methods of production were continually being driven out. Thus, the industrial capitalism of the nineteenth century was essentially expansionist. Its leaders thought in terms of a rapidly increasing market, and not of one in which expansion was liable to be checked by a shortage of consumers' demand. What British exports the recipients could not afford to pay for with their own foodstuffs or raw materials could be converted into capital exports and left to fructify in future interest and dividends in the countries opened up to trade.

The Origins of Orthodox Economics

Orthodox Political Economy, in every country reached by the new methods, reflected this optimistic outlook. If Political Economy nevertheless won for itself the name of "the dismal science," that was largely because it had to invent a theory to explain the lowness of wages and the slowness in diffusing the benefits of higher productivity among the producers. These low wages were in fact the outcome of intense competition between the capitalists, unchecked, or almost so, by either legislative action or successful working-class combination. But they had to be represented as the result of a law which was alleged to decree that wages should tend always to subsistence level—a law derived

in the first place from Malthusian notions about the rise in population certain to be provoked by any rise in the purchasing power of labouring households. This dismal doctrine, which in its extreme form seemed to deny all possibility of a rise in working-class standards of living, no matter by how much production might increase, coexisted in the minds of the leaders of the new capitalism with an immensely optimistic outlook on their own prospects; while a recognition of the alleged tendency towards diminishing returns in agriculture as more mouths had to be fed contributed to make it seem all the more important to bring down, by more efficient production, the prices of industrial goods and to open up by external trade additional sources of agricultural supplies. The abolition of the Corn Laws in 1846 was the industrial capitalists' answer to the dismal forecasts of the effects of increasing population on home agricultural prices and therewith on the cost of living.

Financial Capitalism

This second type of capitalism—industrial capitalism—flourished exceedingly in Great Britain through the greater part of the nineteenth century, and spread less completely to many other countries. Nowhere else, however, did it reach quite the heights attained to in Great Britain; for no other country came to depend quite so much on exports and so little on domestic agriculture for obtaining the means of life. Gradually, this type of capitalism began, for a variety of reasons, to pass into another. In many industries the scale of production needed for full efficiency increased very fast, reducing the number of competing firms and requiring new means of raising the large amounts of capital that had to be brought together under unified control. The limited liability company developed as a means of mobilising for industrial investment the surplus resources of the upper and middle classes; and company promoting became a highly developed and specialised function. So did the provision of credit, especially in view of the very great expansion of overseas trade. Bankers and financiers, as well as 'sleeping' investors, came to be an integral part of the new economic order. Capital was supplied through financial syndicates or investment houses of rich financiers; and commercial banks played a larger and larger part in the provision of working capital for manufacture as well as for trade. The men at the head of big companies came to be more financiers than working managers of the businesses they controlled.

At first the results of these changes were seen rather in an

intensified pace of development than in any tendency towards monopoly or restriction. Foreign trade and investment became more and more important; but in doing so they also partly changed their forms. Broadly speaking, the first phase of the Industrial Revolution was mainly effective in increasing supplies of consumers' goods—above all, textiles; and foreign trade grew most rapidly in goods of this kind. But the second phase of the Revolution was largely concentrated on transport, which had to be greatly improved in order to carry the larger volume of goods over the longer distances that were now required. The development of transport involved a revolution in the methods of making capital goods, especially railway material. For a time the energies of the railway builders were mainly given to the equipment of their own countries with a network of railway lines, along which bigger locomotives drew longer trains at ever-increasing speeds. But presently this task was mainly done; and the advent of cheap and durable mild steel made by the Bessemer process reduced, from the 1860's, the demand for renewals of rails and rolling stock. The railway contractors and the steelmakers sought for new worlds to conquer, and found their answer in the export of railway material and of other heavy industrial goods, such as dock plant, to the less developed countries. The capital for buying these goods had to be lent; for they could be paid for only when the backward areas had been opened up with the aid of the new transport equipment. Accordingly, overseas investment increased to unprecedented levels, above all in the boom years, 1872 and 1873.

Capitalism and Economic Imperialism

This process of overseas expansion in the sale of capital goods was itself highly competitive. Rival firms of railway contractors and civil engineers, rival investment agencies and chartered or unchartered companies for the economic exploitation of backward areas, pushed their claims one against another, with little attempt at combined action. Even when, after the great boom of the early 'seventies, a strong reaction set in, marked by sharply falling prices and widespread unemployment, British capitalism retained on the whole its highly individualistic outlook. Rings and combines began to appear here and there, especially in shipping; but in general the expansionist traditions held good, with only the difference that firms engaged in foreign investment and finance showed a growing disposition to look to the State for backing when they found themselves either threatened with foreign default on existing loans or in competition with the

capitalists or other countries for new openings for the development of backward areas, such as China. There was, in connection with this, a marked change in the fashionable attitude towards questions of empire. The economists and business men of the Manchester School, who dominated opinion in the middle of the nineteenth century, set no store at all by imperial possessions, arguing that they involved the imperial country in costs and responsibilities which could be escaped without any sacrifices of economic opportunity. The secession of the American Colonies in the eighteenth century, it was pointed out, had been without any adverse effects on the growth of Anglo-American trade relations; and it was argued that the complete independence of the Colonies and of India would be fully compatible with, and would indeed make for, increased trade with Great Britain under conditions of entirely unfettered economic intercourse. These views held the field as long as British exports were mainly consumers' goods, sold by way of exchange for foodstuffs and raw materials, and as long as Great Britain had no really important rivals in the principal export trades. Opinion began to shift as the export of capital goods, financed by overseas loans, came to play a more important part, and as other countries came to rival the British in the export of such goods. One reason for this was that, whereas the sale of consumers' goods in exchange for raw produce sets up no long-term claims, the export of capital goods financed by loans gives the lenders a long-term interest in the economic affairs of the countries to which the goods are sent. Investors in railway and other development loans want to be sure of stable government and orthodox financial behaviour in the debtor countries, in order to ensure the regular service of their loans; and these conditions are most easily secured where the investments are placed in colonial territories of the lending country, or in other economically backward areas over which the Government of the lending country can exercise a degree of control which is impracticable in more advanced areas. Consequently, the current of overseas investment began to set more towards empire countries, and there was a marked tendency for each advanced European country to annex further backward areas wherever it could. The British, French and Dutch empires all expanded at a great rate from the 1880's, and countries which had entered later upon the field of advanced industrial development—notably Germany—did all they could to find unclaimed territories which they could annex without provoking war. Almost the whole of the African continent was parcelled out among the European Powers, which also greatly extended their empires in Asia, and were prevented

from partitioning China only by mutual rivalries and by American opposition. The United States at this time was alone among the great industrial nations in not seeking imperial expansion, for the reason that there was too much to do in filling up and developing its own vast territory to leave room for ambitions elsewhere.

Science and Technology

The changing structure of capitalism at this point of its growth led in the main, not to monopoly, but to the growth of much larger units of production and, still more, of finance. The banks in Great Britain began to amalgamate into much larger bodies, at first mainly by the absorption of local banks into the great existing concerns, and later by amalgamations of the resulting national chains. There was also a concentration of merchant banks round a few great concerns; and the raising of new capital came to be much less a matter of local appeals to the public for subscriptions, and much more the affair of national issuing houses which underwrote the capital required and thus, at a price, made themselves responsible for the supply of what was called for even if the general body of investors held back.

At this stage, a further difference appeared. The older industries, though they based their processes of production on mechanical inventions, were in the main carried on by rule of thumb and called for little scientific knowledge on the part of those responsible for their management. But from the middle of the nineteenth century the development of the metallurgical and engineering industries began to call for much more scientific exploitation; and this need was later reinforced by the great expansion of the chemical industries and by the application of electricity to industrial uses. In these rapidly expanding branches of production, which were subject to continual technical change, the protection of new processes and discoveries by patent rights came to be of the first importance for the assurance of profit, especially as the carrying of new methods to a commercial stage often involved heavy prior expenditure on research and development. Big concerns were at a great advantage both in incurring such expenses and in protecting the results against their rivals; and it was in this group of industries that the tendency towards large-scale combination first markedly set in. At the outset, the purpose of such combinations was not usually restrictive, in the sense of aiming deliberately at the slowing down of production or of the rate of technical advance. It could hardly be so, in a range of industries which found ready markets waiting for their new

products and could usually expect higher profits from expanding sales than from any sort of monopolistic restriction. They were nevertheless driven in the direction of monopoly by the need to protect patent rights, as well as by the large scale on which it was necessary to work in order to secure the most economical results.

The Growth of Monopoly

The expanding businesses out of which grew I.G. Farben and the General Electricity Company in Germany, Duponts in America, and Imperial Chemical Industries, Unilever, and the General Electric and Vickers-Armstrong concerns in Great Britain—to name only a few outstanding examples—were not restrictive in their original impulses, though they did set out from the first to reap high profits from technical and organisational superiority over their rivals. Such concerns came to use their vast monopoly power, derived from their huge scale of operations, for definitely restrictive purposes only when they came face to face with market limitations which shifted the balance of profit-making advantage from expansion to regulation. They then began to enter into agreements one with another to limit competition and to share out the available markets, and in most cases forced their less powerful rivals to fall in with their changed plans.

Why did this change come about? Why did the world market, which, apart from certain cyclical interruptions, had shown for a full century a capacity for rapid expansion, come to appear all too narrow to meet the requirements of developed capitalist production? The answer is partly that the pace of potential capitalist expansion was quickening very greatly, both because the pace of scientific discovery and communication of new knowledge was being speeded up and because more countries had entered the field of advanced capitalist enterprise. Markets had to expand much faster than before in order to meet the needs of capitalist development; and on the whole markets did expand very fast right up to the outbreak of the first World War. Intensive restrictionism and monopoly by agreement set in on a general scale only after 1918, when the war-expanded industries—metals, engineering and chemicals—were confronted with the difficulties of finding employment for their enlarged capacity in a temporarily impoverished world—a world, moreover, in which political conditions were unsettled and little confidence was felt in the security of foreign investment in many areas. In these conditions, it seemed safer to many business men, wherever they could see the chance, to endeavour to protect their profits by concerted restriction of

supplies than to compete with one another in seeking new openings for their wares. The reduced number of concerns in those industries which had come to require production and investment on a large scale for technical efficiency made combination much easier than it could be where there were many small competitors in the field; and the big concerns not merely slowed down their own production at the first sign of unfavourable market conditions but began to buy up rivals with a view to putting them out of business, on the plea that "redundant capacity" was making it impossible to secure a fair return on their invested capital.

Capitalism's Internal Conflicts

The older industries, less affected by the speedier tempo of scientific discovery or by the technical necessity of very large-scale manufacture, resorted much less to restrictive devices, not so much from want of will as because the larger numbers of independent firms made combination far more difficult. There appeared a sharp cleavage of attitude between leaders of the newer, more scientifically based, industries and the less scientifically (and also less financially) minded employers in the older industries, such as coal and cotton. In these latter, despite the efforts of a minority of further-sighted capitalists at modernisation of outlook and organisation, the ideas of individualism and unregulated enterprise remained strongly entrenched, and fought a slow, losing battle in face of increasing financial difficulties. The most recent phase of capitalism has thus been marked by a sharp conflict of ideas among the capitalists themselves, one section pressing strongly for monopoly and for forms of state intervention which will confer upon them compulsory powers of monopolistic control under the name of business 'rationalisation,' while another section has fulminated against the increase of state interference and has endeavoured to present itself as the champion of the 'small man' against monopoly and the concentration of financial power. This internecine battle has not been fought exclusively between the older and the newer industries: it appears also in some spheres as a contest between basic industries producing intermediate materials and finishing industries into whose costs such materials largely enter. For example, motor-car manufacturers wax wroth at the high price of steel, civil engineering firms at the price of Portland cement, and bakers at the price of flour. On such matters as these modern capitalism finds it impossible to present a united front; for some groups stand to gain by monopoly and others by its absence, and some seek the

support of the State for establishing monopoly and others for combating it.

Moreover, even those who do seek state support for the 'regulation' of competition are in two minds. If they want some forms of state intervention, which will enable them to establish monopolies with public endorsement and to coerce the recalcitrants within their ranks, they are even more opposed to other forms of state intervention, which threaten either to nationalise their monopolies or at least to subject their price and output policies to stringent public control. Capitalism, in these conditions, has great difficulty in presenting even the semblance of a coherent policy to the public; and its exponents are apt to cut a sorry figure when they allow themselves to be inveigled into rational argument. A good many of them, indeed, fall into a flat contradiction between practical policy and precept. While they do their best to get the State to sanction and support their monopolistic plans, under the name of industrial 'self-government,' they profess to stand for 'free enterprise' and to be the opponents of contemporary tendencies towards economic planning and public control.

Modern Economics

In the meantime, battle rages among the academic economists as well as among the politicians and business men. As we have seen, the orthodox economics of the text books has been based on a series of highly simplified assumptions which reflect in the main the actual conditions of the highly competitive industrial capitalism of a century ago. This type of economic teaching still sets out from the conception of the capitalist entrepreneur, directing and owning his own business and hiring such labour as he needs in a competitive labour market. It presents the picture of such capitalists competing one with another by trying each to arrive at the cheapest method of manufacture and to that end adapting the proportions of labour and capital equipment used in production. It represents them as selling in a highly competitive market, under such conditions that no single firm by altering its output can affect the market prices at which its goods can be sold. It relegates to separate consideration the monetary factors affecting production, and regards the raising of capital as merely a special case of the higgling of the market, calling for little or no special study. No doubt, in many circles, this type of economic analysis is already regarded as obsolete. There are economists who have practically abandoned it in favour of more realistic studies based on present-day capitalist conditions—for example, by taking

'imperfect competition' or 'monopolistic competition' rather than 'pure competition' or 'perfect competition' as a starting point, as well as by bringing the problems of capital supply and credit under more realistic analysis. The 'new economics' associated with the name of Lord Keynes has made very great progress during the past ten years; but at the more elementary stages the subject is still studied largely in the old way. Moreover, even in the realms of higher study there has been a definite throw-back; and we have been offered the spectacle on the one hand of happy mathematical economists pursuing the most rarefied studies of an entirely imaginary economic world based on the most perfect equilibria of competitive prices, and on the other of a recrudescent *laissez-faire* school which endeavours to trace all the mishaps of the past thirty years to misguided state intervention abetting the monopolistic tendencies inherent in modern large-scale technical and financial organisation.

The New 'Laissez-faire'

The former of these schools we may leave to spin its fancies undisturbed: the latter calls for reasoned criticism. Its basic assumption is that, if Government would but cease from interfering with the 'natural' operation of economic forces, all would be for the best in the best of all possible economic worlds. Competition would ensure the sale of goods at prices corresponding to the lowest practicable costs of production; competition between labourers would result in wage-levels at which every available worker would be able to find employment; consumers would enjoy the utmost possible freedom of choice in the spending of their incomes; and investors would receive returns corresponding to the real services rendered by their capitals, and managers returns corresponding to their several abilities. In effect, everyone would be rewarded according to his economic deserts, on the assumption that the owner of capital is as much entitled to a reward as the contributor of labour-power; and the restrictive influence of monopoly would be altogether broken.

Why these results should be expected to ensue upon the abolition of all forms of state intervention—except the police protection of property rights—does not plainly appear. Restrictive practices, under the conditions of modern capitalistic production, can no doubt be fostered by state intervention; but they can and do exist on a large scale quite apart from any action by the State. They arise out of the technical conditions which, in certain branches of industry, make it impracticable to carry on production economically except on a very large scale, and thus effectively

limit it to a small number of firms, which can easily come together even without any state sanction, and can make agreements regulating output or prices without any positive backing from the Government. There are fields of economic enterprise, such as steel-making and shipbuilding, in which none but big firms can in practice engage; and in such fields it does not need state intervention to bring about conditions of monopoly control. Nor is the power to form monopolies without positive State aid limited to these types of business. It also appears in the processes of distribution even where the number of separate firms is very large.

No doubt, those who oppose state intervention to control industry usually at the same time advocate state action to prevent monopoly. The State's function, in their view, is that of 'keeping the ring'; and this includes the repression of practices which are regarded as 'unfair' penalisations of the public, because they involve making the public pay more for its supplies than would have to be paid under conditions of 'free competition.' But what are these conditions, which are set up as a standard by which the conduct of the monopolists is to be judged? The assumption is that, where there are many rival firms producing the same classes of goods in competition one with another, the effect will be to bring prices down to the lowest level compatible with the survival of the industry. It is argued that no one firm will be in a position, by varying its own output, to affect the prices at which its wares can be sold, because no one firm will be producing a large enough proportion of the total output for any addition or subtraction it may make significantly to affect market conditions.

What, then, will happen if these numerous competing firms differ in efficiency? Given freedom of entry for new firms and freedom for existing firms to expand, the most efficient, which are able to sell at the lowest prices, will clearly capture more and more of the market, driving the less efficient firms out of business until only those of high efficiency are left. These highly efficient firms will then share the market, as a result not of any combination among them, but simply of their competitive equality. This is the idyllic picture of what happens under fully competitive conditions, as it is painted for us by the economists of the *laissez-faire* school.

But what is to happen if the total market for a particular commodity is not large enough to sustain a number of firms applying the most efficient techniques? Either efficiency will remain low, because no firm is in a position to command a large enough market to make it worth while to install fully efficient plant; or

one firm, or perhaps a few, will do this, and the remaining firms will then be driven out of business. There will then arise a condition of monopoly—or perhaps of what is called 'oligopoly,' with only a few firms left in being—and the way will be open to the exaction of monopoly profits. For, even if several firms are left, it is no longer true that none of them by changing its volume of output can affect the prices of what it sells; and conditions of 'oligopoly' notoriously lead in practice to combination, or at least to consultation, designed to regulate prices or output in the interests of maximum profit.

In effect, the state of affairs postulated by the *laissez-faire* school can exist only in industries in which it is possible for a considerable number of equally, and highly, efficient firms to exist side by side. But this is possible only in a steadily diminishing number of industries, and even in these industries nothing of the sort actually occurs. Even in highly competitive industries, there is no tendency towards uniformity of costs among the rival firms. Everywhere, some firms have much higher costs than others, and those with low costs reap profits above the average, and those with high costs profits below the average. *Some* very high-cost producers are doubtless driven out from time to time, when their costs are too high to allow them to make any profits at all. But the firms that survive are very far from being equally efficient, as they would have to be in order to drive selling prices down to the level corresponding to the highest degree of efficiency. The consumers do not get their goods at the lowest prices possible on the basis of highly efficient production: they get them at prices which suffice to keep most of the less efficient firms in the market.

One reason for this large divergence between the ideal, as postulated by the *laissez-faire* school, and the actual is that it would be quite impossible to have in every industry numerous firms of the highest efficiency. There are not nearly enough efficient managers to make this possible; and even if standards of management were to rise sharply there would still be big differences between the best and the worst. Nor is it in practice possible for all plants to be equally efficient; for this would involve scrapping the entire plant of an industry every time a new invention altered the technical conditions of production. Even great unified trusts operating a number of plants do not achieve any common standard of efficiency at their various works; and much less can this be expected of a number of rival businesses spread over a wide area and founded at many different dates.

Monopolistic Competition

Moreover, industries do not in practice produce perfectly uniform products. There are many kinds of motor cars, or woollen goods, or rayon, or boots, or anything else you choose to name—from wheat to precious stones—and some firms produce some sorts, and some others. Some specialise on a few lines: some range over many. Some goods are by-products of others: some are joint products, such as mutton and wool, or gas and coke. In fact, no firm is exactly like another; and in most industries there is no such thing as perfect competition, or perfect similarity of output, between two firms engaged in the same branch of production. Some economists describe this situation as one of 'monopolistic competition'—meaning that each firm is in a sense a monopolist selling a distinct product of its own, not fully competitive with the products of other firms, but all the same competitive, because they are all alike trying to attract to themselves a part of the public's limited total purchasing power.

This type of 'monopolistic competition' has a special consequence. It leads each firm, wherever it can, to make its goods seem *distinctive*, either by introducing real variations or by advertising in order to get its name known, or a particular brand popularised. Advertising, however, costs money, which must be recouped out of selling prices; and so, in most cases, does distinctiveness, which may involve the production of so many varieties as to forfeit many of the economies of large-scale manufacture. Here again is a reason why, in the absence of combination, goods do not sell to consumers at the lowest prices made possible by the progress of the technique of manufacture.

The Case against 'Laissez-faire'

In short, the world of pure or perfect competition which the *laissez-faire* economists describe is an utterly unreal world, bearing but little resemblance to what actually occurs even in those industries in which there is the minimum of either industrial combination or state regulation. There is no presumption that, under the technical conditions of to-day, unregulated competition will result in cheapness and plenty of supplies. On the contrary, it may make impossible the cheapness which can come only from standardised mass-production, the elimination of *unnecessary* varieties, and the careful co-ordination of interdependent industries and processes.

Nor are these the only reasons why an unregulated economy fails to achieve the promised plenty. Under the conditions of capitalism, there are other limiting factors which prevent the use

of all the available resources of man-power and equipment in order to turn out the largest possible volume of goods and services. Even apart from monopolistic restriction, it may well pay firms better to produce limited quantities for an assured market than to incur the risks of expanding output in the hope of capturing further sales. Firms do not normally produce as much as they would produce, if output were their sole object, but only as much as they think they can sell at a satisfactory price. Even if the *additional* cost of producing more would be relatively small, they may be deterred because they cannot sell the extra units at a low price without reactions on the prices they charge to their existing customers. Thus they may stop short, even when a larger output would reduce their *average* costs of production, because the attempt to sell more would bring down the total price they can get for *all* they produce.

There is no need at this point to go again into the conditions which lead to this result. They have been discussed already, in previous chapters, in connection with the general problem of employment; and I shall recur to them in later chapters. Here, I am only pointing out the falsity of the view that the absence of either state intervention or organised monopoly will ensure the consumers getting their supplies at the lowest prices that are technically practicable.

Will Socialisation lead to Inefficiency?

If this is admitted, what is left of the case in favour of unrestricted capitalism advanced by economists of the *laissez-faire* school? Only the contention that state intervention, and still more public operation, of industry necessarily lead to inefficiency and crush out the enterprise and initiative on which economic progress depends. The difficulty about passing judgment on this opinion is that there is not enough evidence—unless we are prepared to accept as overwhelming the evidence of the history of the Soviet Union during the past thirty years. No one can possibly argue to-day—though many did argue right up to 1941—that public ownership and operation of industry in the Soviet Union have either led to inefficiency or been marked by an absence of enterprise and initiative. It can be held that grave mistakes have been made, but even if that is so, they were mistakes not of want of enterprise but rather of over-confidence or excessive zeal. No doubt, much of the industry, and most of the agriculture, of the Soviet Union is still inefficient by West European or by the better American standards; but this inefficiency is a consequence, not of state operation, but of

immaturity. It is undeniable that Russian industry, under socialist control, has made enormous strides in efficiency during its periods of planned operation; and there is every indication that its startling rate of progress is likely to continue as soon as there has been time to repair the very serious havoc wrought by the war.

In view of what has happened in the Soviet Union, it is no longer possible for reasonable men to take seriously the merely dogmatic assertion that public enterprise is of its very nature unenterprising and inefficient. Nor does such evidence as there is from countries other than the Soviet Union in any way bear out this contention. In many European countries, the railways have long been publicly owned; and their efficiency has not compared at all badly with that of industries in the same countries conducted under private ownership. In Great Britain the generation and distribution of electricity has long been divided between public and private concerns; and it is an admitted fact that the public concerns have, on the average, given consumers the cheaper supplies. Everybody grumbles at the Post Office; but that is no evidence that people would grumble less if it were a private concern. It used to be a favourite argument that municipal housing was less efficient than housing provided by private enterprise; but the housing record of the period between the wars certainly does not show this. Nor have I heard anyone accuse the London Passenger Transport Board of inefficiency. On the contrary, both it and the Central Electricity Board, two representatives of British public enterprise in its modern form, are admitted to be among the most efficient large-scale services in Great Britain.

I am not running to the opposite extreme, and asserting that public concerns are always more efficient than private concerns run for profit. I do not think they are. All I am saying is that there is no evidence at all in favour of the view that they tend in general to be less efficient. It used to be said that this must be so, because workmen—or managers—in secure jobs would never exert themselves as much as men in constant fear of the sack. We used to be told about "the corporation stroke" as slower than the "stroke" of men in private employment. I do not deny that men can be driven to work by fear of losing their jobs, or that this fear has usually been less in public than in private employment. But there are other factors besides fear that conduce to efficiency or to inefficiency; and I believe these have usually weighed at least as heavily on the other side, except with labour of the lowest grade. In general, the real case against public

servants is not that they tend to be less efficient than the servants of private enterprise, but that they are sometimes less polite. The Post Office is not at all inefficient; but it is sometimes apt, in its dealings with a doubtless tiresome public, to be a little brusque. A similar complaint is sometimes made against Co-operative employees, in comparison with assistants in private trade. It is, I think, often true, but not very important in comparison with efficiency, though well worth the taking of some trouble to correct.

The Case for Public Enterprise

In reality, however, this kind of argument about the efficiency of this or that concern, on the plane on which it is usually conducted, quite misses the major point. The thing that matters fundamentally is whether, under the conditions of the twentieth century, the people as a whole will be better served by a system of private enterprise or by one in which the control of major matters of economic policy is in the hands of the Government and of public economic agencies working under its authority. The great advantage of the latter system is that it can plan effectively for the full use of the available resources of production, so that no man-power and no land or capital goods that can contribute to the national welfare are allowed to waste unused. Public control of the key positions of the economic system can make an end of all unemployment beyond the frictional residuum, and can ensure that the character, as well as the volume, of production shall correspond to the needs of the people.

It does not follow, even if the State takes over the key positions which will enable it to achieve this end, that it need take over all industries, or even all that are conducted on a relatively large scale. The question, how much need the State take over in order to get effective control of the volume and character of production, is not one to be answered offhand. Clearly, I think, it must take over certain basic industries and services—transport, coal, fuel and power, steel, central banking, and perhaps a few more—and it must be in a position to regulate external trade and to safeguard the balance of payments. Beyond that, the answer depends on the situation in each particular country. Some industries will be singled out for taking over because they have fallen under the control of powerful private monopolies, national or international, which it is indispensable to destroy: others, perhaps, because they are being run with intolerable inefficiency under private enterprise. The right course will differ a good deal from country to country. In the Soviet Union, there was no practicable alternative to going nearly the whole way, in face of the sheer collapse of

private industry and of the catastrophic thoroughness of the political and social revolution. But these conditions were peculiar to Russia: they may, or may not, exist elsewhere when the moment for a change of masters arrives.

It has, however, to be observed that the very thoroughness of the change in the Soviet Union carried with it one great positive advantage. Every citizen became conscious of working under a radically new social order, to which the old categories and conditions simply did not apply. It was plain to all that the building of the new order was an onerous task resting upon the entire people, and demanding their positive and responsible co-operation. There is, I think, no doubt that this situation released among the people a great force of enthusiasm and personal initiative, or that without it the gigantic achievements of the Soviet Union over the past thirty years would have been altogether impossible.

Problems of Gradualism

As against this, where Socialism comes in by instalments, the new institutions being fitted in with the old, and most things going on in appearance unchanged, it is very much harder to release this new force, or to put behind the institutions which are the forerunners of the new order the human impetus which is wanted. The socialised industries and services of the Soviet Union owed much of their rapid advance to the fact of their forming parts of an essentially new order under which everyone was conscious of living; whereas, if only a few industries are socialised *and there is no feeling abroad that the entire society is in process of being re-made*, workers and managers in both socialised and non-socialised industries may be conscious of no more than a change in the mechanisms of administration and control, and not of a new purpose pervading the whole. This is the danger besetting gradualist Socialism—that it may fail to evoke the required enthusiasm, to release the new spirit of initiative and enterprise in the public service, and to provide effective substitutes, on a higher plane, for the incentives on which reliance has been placed under the profit-seeking system.

To the extent to which it is true that workers and managers work, if no worse, also no better for publicly operated industries and services in a system still mainly capitalistic, the reason, I believe, is to be sought in this failure to release the essential incentives of the socialist order. The mere fact of working for the State is not enough: the State must also be working for the

people. When the attempt is made to pass over from Capitalism to Socialism by gradual stages, it is for this reason necessary that the initial steps shall be big enough, and comprehensive enough, to give the whole people a sense of change—I mean, of structural change affecting the whole conception of values on which the society rests. Nothing short of this will avail to call the new forces of personal initiative under public enterprise into play, or to provide the basis for the higher efficiency of production that must be secured in order to meet the raised expectations of the people.

Capitalism in Decay

As for Capitalism, it has no new shots in its locker, when it has once invoked the seven devils of Fascism in vain. When once a people has begun to think and feel in terms of social equality, and has begun to understand its collective power, the days of Capitalism are numbered. Even where it can achieve technical efficiency, it cannot give any assurance that this efficiency will be applied to securing that the people's needs are met, and not to the strengthening of restrictive monopoly or the intensified exploitation of labour. It cannot, within the bounds of its profit-seeking methods of determining the volume of production and employment, make full use of the available resources or avoid plunging the people into alternating experiences of speculative excess and under-productive depression. Nor can it avoid, in its periods of prosperity, giving too much to the rich and too little to the poor, so as to be unable to find adequate outlets for consumption; or, in its periods of adversity, giving too little to both rich and poor, and allowing investment to fall short even of the renewals needed for maintaining its capital intact.

This is a picture very different from the idyllic vision of the *laissez-faire* economists, who attempt to explain the difference by describing the reality as a "deviation" from a non-existent "norm." If only competition were unlimited, they cry, none of these evils would arise. If there were no Trade Unions or Minimum Wage Acts, wages would always sink to a level at which everyone would be employed. If there were no combinations, or laws permitting and bolstering combinations, all firms would always be outvying one another in reducing prices, in order to increase their trade. If there were no plans, everything would work out as if it had been planned to perfection, by an almighty brain. But is there in truth any wage-level at which all workers would be able continuously to find jobs under Capitalism? Would the outlawing of combinations really lead to production

everywhere at the lowest possible costs? Would not the wage-cuts that would be made so reduce consuming power as to make unemployment worse, instead of better? Would not the competitive struggle mean in practice that in most industries the advantages of mass-production could not be achieved at all?

The *laissez-faire* economists usually add one further condition—that money must be kept "neutral" in economic affairs. Bankers must not be allowed, in boom periods, to create additional funds by way of loans, and thus to force prices up, or, in slumps, to annihilate the money they have made, and render depression worse by forcing prices down. The earlier advocates of *let-alone* used to believe that this stability of the monetary supply would happen of itself if only gold money were used, except as small change, or even if the currency were composed largely of paper exchangeable at will for gold. Their successors of to-day are not so sure, or perhaps realise the impossibility of getting a firm, self-regulating currency. At all events, most of them advocate control, but a control designed not to 'manage' the supply of money to suit the needs of the people, but to fix the supply beyond reach of manipulation by either bankers or Governments. They want a state of affairs in which, as production rises and the supply of money stands still, prices will be continually forced down in correspondence with the fall in real costs. But in fact costs fall, not evenly over all industries, but at very different rates, and in some industries not at all; whereas the downward pressure on prices arising from a fixed monetary supply would make itself felt everywhere, in the industries whose costs had not fallen as well as in the others. These industries, faced with falling profits, would cut down output and employment: a general tendency towards depression would be set in motion. Stability might ensue; but it would be the stability of depression, and not of economic progress.

The Monetary Factors

These monetary considerations are important in the study of modern capitalism because, in the more advanced stages of capitalist development, the financier succeeds the industrialist, just as earlier the industrialist succeeded the merchant, as the controlling figure of the whole system. It is no easier at this developed stage to draw an absolutely clear-cut distinction between financiers and industrialists than it was previously to draw such a distinction between industrialists and merchants. Some big industrial concerns command large enough capital to be completely self-financing, or nearly so, and to make no call

upon either financial houses for the raising of capital or commercial banks for credit in their working operations. But most businesses do depend on the financial market for capital-raising and on the commercial banks for short-term credit—and sometimes for capital also. The great industrialists turn into financiers as well, and play a double role. It was a portent of this change when the Bank of England, whose Court of Directors had previously been drawn exclusively from 'the City,' began to appoint to it great industrialists who had entered the ranks of the high financial *élite*. It is in this rarefied region that the great questions of monetary and financial policy have been decided—by this financial *élite*, and according to its ideas. The general run of industrialists and merchants have merely had to fall in with whatever is settled for them: the *élite* has decided when the scale of business operations is to be expanded, and when it is to contract. Of course, the financiers have not settled such questions omnipotently, with power to make prosperity or depression at will. They have been interpreters of the signs of the times, as they have seen them, not free agents able to mould events without limit. But, for the making of depression, if not always of prosperity, their word has prevailed. They have always been able to bring about a crisis by reducing the supply of money, though they have not always been able to engender a recovery by increasing it—for it has been beyond their power to force people to use the money they have set out to create.

This financial power, closely linked as it is to-day to the monopoly power of the great industrialists, is the heart of modern Capitalism. Socialists, if they wish to supersede capitalist power over the economic working of society, must strike straight at this heart. Much nonsense has been talked about it making no difference whether the Bank of England was nationalised or not, on the ground that the Bank, though in form a private concern, already obeyed the orders of the Government. So it did after 1931; but did it, in the crisis of 1931? The truth is that it could make very little difference whether the Bank of England was privately or publicly owned, as long as it was working in conjunction with a capitalist Government, determined to uphold the claims of Capitalism. But a Socialist Government, set on carrying through a constructive Socialist plan and on keeping employment full, needs to be in a position to use the Bank of England as an assured instrument of its projects. Such a Government could by no means have afforded to leave the Bank in the hands of men hostile to these projects, even if the Bank had professed a general readiness to accept the Government as guide.

Finance the Key Power under Modern Capitalism

The financial power is the key power, for several reasons. In the first place, the central bank decides how much money there is to be. Secondly, the commercial banks are the arbiters of credit, deciding who is to get the advances asked for, and who not. Thirdly, the conditions under which new capital can be raised depend on the banks and the City houses, which can make or mar new issues and manipulate interest rates. Fourthly, the banking system is the regulator of the foreign exchanges. Fifthly, it is the barometer of economic confidence or mistrust.

Long ago, Karl Marx signalised the capitalist epoch as the epoch of monetary predominance when he said that the capitalist system reversed the natural formula of exchange. "CMC."—Commodity into Money, Money into Commodity—is the natural process, the exchange of goods for goods with money serving as intermediary. The capitalist formula is "MCM′"—Money into Commodity, Commodity into More Money. The capitalist begins with money, hires labour and other factors of production to make a commodity, and sells the commodity for more money than he began with. Money seems to be both the starting point and the purpose of production—money, not the real consumable goods. Such a system naturally elevates the financial power to the first place.

But not in a Planned Socialist System

A structure thus controlled largely by monetary mechanisms obviously lends itself readily to planning, even though its mechanisms have in the past been used without anything in the nature of a plan. Hence arises the frequent delusion that a change in the control of the monetary and financial agencies will suffice to secure the use of the structure for widely different purposes, with little or no change in the industrial organisation itself. It is quite true that control of the monetary and financial forces is indispensable for the success of any plan designed to make welfare the motive for production; but it is by no means the case that this control alone will avail to orient the entire economy towards plenty and equitable distribution instead of scarcity and inequality. The new orientation demands purposive planning of what is to be produced and of the principles of distribution: not merely of the total supply of money, or of the total sums to be devoted to investment and therefore also to consumption. It calls for rapid expansion of some industries and orderly contraction of others: for special measures to cheapen some goods, vital to the success of the plan or to the standard of living; and for the relating at each stage of priorities in the order of production to

the available supplies and to the geographical distribution of man-power and other resources. The financial mechanisms can be of great importance in the operation of these wider, industrial controls; but financial control cannot remove the need for direct planning, in terms of the available resources of human skills and capacities, of land, and of accumulated industrial capital. Social planning—planning for welfare—must be essentially a planning in terms of real resources and not of money, and above all a planning in terms of the knowledge, the skill, and the capacity for service of the men and women upon whose response the success of any plan will finally depend.

CHAPTER III

PLANNING AND THE NEW PATTERN OF ECONOMIC THOUGHT

PEOPLE ARE APT TO TALK as if economic systems must be wholly planned or wholly planless, whereas in fact no system is either of these things. The Soviet Union can be taken as the most completely planned economy in the world; but even there a considerable amount of production is carried on without any definite planning. On the land, even if we regard the work on the collective farms as fully planned—which it is not—the members of these farming groups are left free to carry on a substantial amount of production on their own subsidiary holdings and to sell the produce in the open market. In industry, side by side with the state-owned factories in which large-scale production is carried on, there are many thousands of *artels* or associations of artisan producers, whose work is for the most part quite unplanned by any central regulating authority. These parts of the economic system can be left unplanned without any risk of destroying the advantages of planning. The planning authorities can take note of what is produced in the unplanned parts of the economy, and can fairly well anticipate what is likely to be produced in it for as far ahead as they need to look. The national plan could gain nothing from an attempt to plan everything; and the complexities involved in trying to plan the output of a host of small-scale producers would be a source of constant trouble and irritation. Thus, the most completely planned economy we know of has its unplanned side.

Planned and Unplanned Economies

At the other extreme, we may take the United States as our example of the least planned type of capitalist economy. Even here, some things are planned, and were so even before the New Deal. The United States tariff, with its heavy duties designed to exclude many classes of foreign manufactures, was a sort of planning in the interests of American manufacturers. The United States had its public utility services, run under public regulation; and its nationalised central banking system, organised under the Federal Reserve Board, was far more planned than ours. Since

the New Deal, there has been much more planning in America, even before the economy was turned over to meet the needs of war. There were special plans to regulate agricultural production and marketing, to stimulate housing, to preserve and improve forests, and to develop electric power and promote economic improvement in backward areas. The Tennessee Valley Authority is an outstanding example, drawn from American experience, of the beneficial effects of economic planning in a particular field. There were, and are, planned sections in the mainly unplanned economic system of the United States.

Yet, despite these exceptions, the contrast between the systems of the United States and of the Soviet Union does hold good. In the Soviet Union, it is somebody's business to draw up a general plan covering the economy as a whole and providing, in broad outline, for the distribution of the available man-power and materials, and of the factories and machines, between alternative forms of production and service. In the United States it is nobody's business to do this, or even to ensure, except in time of war, that there shall be enough production to use up all the persons who are looking for jobs, or to prevent usable capital instruments or supplies of materials from being wasted. The Soviet Union can afford to leave the detailed use of some of its resources unplanned; but it does this in the knowledge that the working of the parts of its economy that have been planned will ensure that there shall be no failure of demand for products from the unplanned sectors. The United States, on the other hand, up to the time of the New Deal, planned with a view only to particular and not to general results; and even the New Deal planning, though it was meant to increase the total volume of employment, was made up of expedients designed to meet what was regarded as a temporary emergency and did not include any attempt to plan the output of the main industries or to tell the general run of private employers what they were expected to produce.

Thus, the real contrast between planned and unplanned economies appears to have two aspects. In the mainly planned economy, there is an attempt to regulate total production, in order to ensure full employment and the fullest possible use of the available resources; and there is also an attempt to decide in advance what proportions of man-power and other resources are to be devoted to the main alternative uses—how much to producing capital goods and how much to consumers' goods, and how much to each main sort of each. It is of the essence of a mainly planned economy not to leave either the total amount

of production or its nature to be settled by the separate decisions of a large number of independent producers, but to attempt to settle both, on broad lines at least, through public bodies responsible to the Government, and acting under its authority. As against this, in a mainly planless economy, there is *normally* no attempt to settle either the total volume of production or its distribution among various kinds of goods and services, though there may be 'planning' to increase or decrease the volume of production of certain particular kinds, e.g. more food, more houses, less whisky, or even, under our topsy-turvy economic arrangements, fewer ships, less steel or coal, fewer hogs, or less coffee or rubber.

Planning in Emergencies Only

I said 'normally,' because there is an intermediate kind of economy, normally unplanned, but designed for resort to a kind of planning when things go badly wrong. The New Deal in the United States was of this type. It was assumed that under normal conditions both the total volume of production and the quantities of different goods and services produced could be left to be settled by private enterprise, but that, when the failure of private enterprise to achieve satisfactory results became, or threatened to become, particularly flagrant, the Government should step in, not to take over the general control of production under a comprehensive economic plan, but to *supplement* private enterprise by providing additional openings for employment, if possible up to the number required to bring all the available resources into use. It was hoped that, where the Government stood ready to do this, its actual intervention in the labour market could be kept fairly small, because the stimulus given by its action would encourage private employers to engage more labour and to expand output, so that the State's part would be merely that of "pump-priming"—to use the current American phrase. Unplanned, private provision of employment and decision what to produce continued to be regarded as in the natural and normal course of things: public planning and provision were thought of merely as partial expedients for meeting an abnormal situation and as needing to be kept down to the lowest possible point. Even so, there was prodigious hatred on the part of American capitalists for the New Deal, although they themselves were profiting by it in larger markets and increased profits. They hated it, because they saw it as the thin end of a wedge of public control and planning of economic affairs.

As we shall see later in this book, the programme embodied

in the Churchill's Government White Paper on *Employment Policy*, issued in 1944, was of the same order as the American counter-depression policy known as the New Deal. The authors of the White Paper regarded the determination of the volume and character of production as normally the business of private, profit-seeking enterprise, and were prepared to invoke state action only when the demands for labour made by private enterprise fell short of what was needed to secure "a high and stable level of employment." They did not contemplate the making at any time, by the State or by any other authority, of any comprehensive plan of production. The furthest point to which they were prepared to go, even in general, was to admit the State's responsibility for intervening to maintain (or if need be depress) the total volume of employment, by providing enough *supplementary* openings to make up the deficiency left by private demands for labour or by cutting down public works in periods of 'over-activity.' They did not contemplate at all that the State, outside the range of its own production or of what it specially ordered and paid for as part of the public services, should plan *what* should be produced. That was still to be a matter for private, profit-seeking enterprise, responding to the conditions of money demand. There was to be no general plan, even in times of threatened depression or crisis: only a supplementary plan, for eking out the private demand for labour and willingness to produce.

An economy based on the principles of the White Paper of 1944 (or of the New Deal) would still be in the main unplanned, though in fact the thorough pursuit of full employment might, as opponents readily saw, carry the State much further in the direction of planning than it had originally been intended to go.

The Essential Difference between Planned and Planless Economies

Thus, though planning is a matter of degree, the essential difference between mainly planned and mainly unplanned economies is that in the one case there is a general plan regulating the character, as well as the total amount, of production and employment, whereas in the other there is not.

Fascist Planning

In this sense, the economy of the Soviet Union definitely is planned, whereas the economies of the United States, Great Britain, and most other capitalist countries are definitely unplanned. But where, in this classification, are we to place the now happily defunct systems of Nazi Germany and Fascist Italy, or of Imperialist Japan? In none of these countries, under their

totalitarian régimes, were the means of production for the most part publicly owned, so that their Governments could directly determine the volume of production and employment in each of the main industries and occupations. Capitalist production for profit remained in being over the greater part of the economic field; but employers, instead of being allowed to determine their production policy for themselves in accordance with their expectations of maximum profit, were compelled to adapt their production and employment programmes to fit in with the requirements of the Government. In return for their obedience, the Government for its part gave them an assurance of docile labour, by dissolving free Trade Unions and making the regulation of wages and conditions a public, or quasi-public, function, and gave them also in effect an assurance of markets and of adequate, though not excessive, profits as long as they reached even tolerable efficiency. This latter assurance arose from the fact that the Government, in diverting a large part of the man-power and equipment to the production of armaments and of other goods for public consumption, created conditions of shortage in the supply of ordinary consumers' goods, so that there was little room for any firm, except the most inefficient, to be left with unsaleable wares on its hands. Moreover, the Government's demand for foreign exchange for the purchase of materials and other war requisites involved a pushing of export trade, where necessary by means of subsidies, and this factor aggravated the internal shortage of consumers' supplies.

It was clearly possible, under the conditions which existed in Nazi Germany (though not under those of much less efficiently regimented Fascist Italy) for the Government to establish and maintain full employment without actually owning or managing more than a small proportion of the industries providing the employment. It was further possible for Nazi Germany to regulate the general character of production—that is, to pursue its announced policy of 'guns before butter'—without abolishing the profit system or issuing precise directions to every industry about what it should produce. The Nazi Government was able to do this because, even apart from its final weapon of sheer terrorism, it had in its hands a number of key controls which it could use to compel employers to do its will. It controlled absolutely the banking system, so that no one could get credit against its desire. It controlled the capital market, so that firms could neither raise fresh capital nor even re-invest their own profits without its consent. It controlled both imports and the means of paying for them, so that it was in a position to ration at will all imported

supplies of materials or manufactures: indeed, the rationing of foreign exchange came to be one of its principal weapons in bending industry and commerce to serve its ends. It controlled the supply of labour. And, being a completely authoritarian Government, it could have controlled anything else it had needed to control in order to make its will effective in economic affairs. It could even, if that had been requisite, have compelled employers to go on producing at a loss until their resources were exhausted, and could then have kept them going indefinitely by means of subsidies from its controlled banks or from its own Treasury.

Does this prove that all the essentials of a planned economy can coexist with capitalism, in the sense of a system under which, from the standpoint of the employer, the incentive to production is that of private profit? In a sense, yes; but with the difference that, although the business man continues to work for profit, the actual profits he makes result not from the free play of the market but from the decisions of the Government. The employer, in carrying on the management of production, is no longer in effect deciding what to produce in the light of his estimate of market demand. He is responding to a public decision about what it is to be made worth his while to produce, or even about what he is to produce though it is not worth his while. The form of capitalism remains; but the entire basis of the system has been changed by the substitution of a State plan of production for the 'no plan' of an unregulated market economy.

It would have been impossible for the State effectively to regulate the character of production in this way without also regulating its total amount. It was an essential part of the Nazi scheme of things that the State should itself acquire a considerable part of what was being produced and should thus ensure the adequacy of total demand. The State could not have effectively ordered the private owners of industry to produce what it wished to be produced unless it had been able to ensure a sale for the products. It was able to ensure this sale, because it was itself in the market as a buyer with a practically insatiable demand. The State wanted all the armaments it could get, and that meant all it could spare the man-power to produce after meeting the indispensable needs of consumption.

Could Fascism have Planned for Plenty?

It is interesting to speculate whether an economy on the Nazi model could be successfully organised except on a basis of preparation for war. Theoretically it could; for there would be nothing to

prevent the State from spending on public works or on free services as much as the Nazi State actually spent on war preparation, and thus keeping demand at a high enough level to sustain full employment. A Fascist economic system could, in theory, put 'butter' instead of 'guns' at the head of its schedule of priorities. It is, however, difficult to suppose that such a situation could arise in fact; for what in practice made the Nazi totalitarian régime possible was its warlike character, its appeal to nationalist sentiment and to aggressive feelings of racial superiority; and without these appeals, which were bound to carry it into war, it would have had no means of enlisting mass support. If the Nazi leaders had been aiming at 'butter' instead of 'guns,' the German people would not have been content with 'butter,' but would have demanded freedom as well; and the demand for freedom would have been fatal to the rigid system of controls on which the success of the Nazi plans depended. The working classes would not have consented to the regimentation and refusal of rights of association which ensured their subordination to the employers: the employers would have kicked against not being allowed to produce what they thought would pay them best; and the forces on which the system would have had to rely for its defence would not have been able to stand out indefinitely against the demand for a return to some sort of democratic or parliamentary means of expression and of influencing public policy. The Nazi totalitarian economy was essentially a system organised for aggressive war, and would have had no meaning apart from this.

Soviet Planning

Why, it may be asked, does not the same limitation apply to the planning system that has now been in operation for nearly a generation in the Soviet Union? The Soviet Union too has devoted a considerable part of its resources to war preparation, not because it has been planning aggression but because it has feared attack. But the diversion of man-power to war preparation in the Soviet Union was never a means of saving the Soviet economy from a crisis due to deficiency of demand. On the contrary, it was a regrettable necessity, arising out of external conditions and resulting in a lower standard of living than could have been achieved without it under the successive Five Year Plans. There has never been for the Soviet Union any problem of disposing of any total output of goods and services which it could equip itself to produce: nor could there be such a problem in an economy entirely independent in all its main branches of the profit motive. The Soviet Union did not need to work through

employers who had to be allowed such profits as would induce and enable them to employ the available labour in producing the largest possible total of goods. The Soviet economy worked on the basis of deciding first of all how much could be produced, and of allocating the available productive power to various uses in the making of capital goods, consumers' goods, and services, and therewith of distributing to the people enough purchasing power to enable them to buy all the consumers' goods and services that could be allowed them. Incomes and prices, as well as production, in the main industries and services were under direct and co-ordinated public control; and it made no difference to the stability of the system whether the State itself ordered few or many goods, leaving many or few to be bought and consumed by the citizens individually. Planning would work equally well either way, provided only that the public authorities used reasonable common sense in setting aside a part of the current production for capital renewals and extensions, and in proportioning the relative supplies of different consumers' goods and services to the real requirements of the citizens.

Indeed, one can go further. Even if the Soviet planners made mistakes in organising the relative supplies of different goods—for example, so that persons who would have preferred more boots had to accept more shirts instead—the stability of the system was in no wise threatened. There was a loss of welfare, no doubt; and persistence in such errors of judgment would have been bound to make the planners unpopular, and would probably have led to their replacement by others. But, the shirts being wanted only less than the boots, there could be no question of their failing to find buyers when there were no more boots to be had and people still had money left to spend. If people had refused to clear the market of shirts at the planned prices, it might have been necessary to offer them at a lower price; and in that event the State might have had to incur a bookkeeping loss. But the appearance of such a loss would have served as a signal (even if there had been none before) to amend the plan, while the speedy clearing of the market of boots would have shown that the right course was to produce in the next planning period relatively fewer shirts and more boots.

The Case against Planning Answered

The opponents of planning contend that this power to correct errors and to adjust plans of production in the light of the consumers' demands for the various products affords no assurance that the consumers' wishes will really be met, because the

demand for a commodity is not something absolute but depends on the price at which it is offered for sale. Thus, if the planners decide to limit to a small amount the supply of a particular kind of goods, and at the same time fix the price high, supply and demand may balance at that price, although the consumers would sooner have had more of that thing at a lower price, and less of something else which they actually bought because it was cheaper. Such a situation is, of course, fully possible: indeed, it is a perfectly familiar situation under the capitalist system, wherever any sort of monopoly exists. It is of the very essence of monopoly to offer for sale, save under conditions of very elastic demand, less than could be offered and sold at a price adequate to cover costs. Such a thing could, no doubt, not happen under the purely imaginary conditions of perfect competition; but it can and does happen under unplanned capitalism, and there is nothing to exclude the possibility of it in a planned system. Even so, planning has the better of it; for, whereas under planless capitalism there is no assurance that anything at all will be produced instead of that which the monopolist decides not to supply, under a planned system aiming at full employment something else will be produced, even if it does not give the consumers quite the same amount of satisfaction in relation to the effort expended on its production.

Though this lesser evil might occur under a system planned for welfare, it could occur only if the planners inadvertently made a mistake, whereas under planless capitalism the greater evil can be made to happen quite deliberately, as a means to higher profit. I am of course excluding the case in which, under either system, a particular thing may be made scarce and priced high for the set purpose of limiting consumption—as in the familiar instance of high taxes on beer and spirits. Such a case raises quite different issues, which are not here in question. We may confine our argument to those cases—the vast majority—in which there is no desire, on social grounds, to increase or diminish the consumption of one thing as against another; and we may assume that, in such cases, the planners' object will be to give the consumers as nearly as possible what they want.

Costs and Prices in a Planned Economy

In order to achieve this, they will naturally price things in accordance with the estimated costs of producing them, on a basis of average unit cost.[1] The purpose will be to cover costs in

[1] I have not space here to consider the alternative of pricing at marginal, instead of average, cost. Indeed, to do so would merely complicate the argument, without contributing any new point.

each branch of production, and thus to give the consumer the means of apportioning *his* expenditure in relation to the real cost of meeting his wishes. In doing this, the planners do not have to start from scratch, without any advance knowledge of the consumers' desires. They already know how consumers have actually distributed their expenditure in the past, and thus have also at any rate a fair idea of the relative elasticities of demand for most classes of goods—that is to say, of the rise or fall in demand likely to result from a small upward or downward change in price. The planners will thus be endeavouring to anticipate the consumers' requirements and to bring about an *optimum* distribution of productive resources in relation to them.

At this point, the critics of planning break in with the objection that the whole conception of real costs loses its meaning if there is no free market in the 'factors of production'—that is, in land, in capital, and above all in labour. Under conditions of full competition, they tell us, the prices of these 'factors' are settled in the last resort by the consumers, whose demands decide how much each thing is to be sold for, and thus how much is to be shared out between the 'factors' used in producing it. According to this view of the case, under competitive capitalism, free from monopoly or state intervention, each 'factor,' or rather its owner, gets precisely what it is worth—precisely what it contributes towards the value of the product. What the consumer pays for the final article is broken up, through each successive stage of production back to the original materials used, into shares for land, labour and capital determined by the higgling of the successive markets so as to correspond to each 'factor's' productivity.

Even if this were theoretically true under fully competitive conditions, that would not make it true under any actual capitalist system. But is it true, even where competition is as perfect as can be imagined? The argument starts out from consumers' demand—effective demand, backed by purchasing power. It starts out, that is to say, with the consumers' incomes already settled, and then it proceeds to derive the producers' incomes, including those of landowners and capitalists as well as workers, from this prior distribution of consumers' incomes. But the consumers are not one set of people, and the landlords, capitalists and workers another set. In the main, they are the same people, and the two sets of incomes are the same incomes regarded from different aspects. It is therefore no wonder if the assumed distribution of consumers' incomes leads straight to the same distribution of incomes among the producers, and appears to

justify each income as a reward corresponding to the productivity of the 'factor' owned by each of the recipients. No other result could arise from so essentially circular an argument.

All that has in truth been proved is that, under conditions of full competition, any existing distribution of incomes will tend to perpetuate itself, as long as no disturbing influences arise. It is not at all proved that the distribution of incomes which was taken as a starting point was either right or good, or in any real accord with the productivity of the various factors—for plainly a different distribution of incomes, resulting in a different distribution of effective demand, would lead to valuing some 'factors' more highly and others at a lower rate.

How can the Planners tell what to Produce?

So far, it is easy to demolish the case of the anti-planners, by showing that, even under their imaginary state of full competition, the money costs of the various 'factors' of production would correspond, not to *real* costs, or real productivities, but only to the prices set on the factors as a consequence of the existing distribution of incomes in the community. This is indeed a sufficient answer; for it blows sky high their contention that there is anything entitled to command our veneration either in the existing distribution of incomes or in the ways of distributing man-power between alternative branches of production under planless capitalism. It may, however, still be true that an economy planned for welfare, though it is no worse, is no better in this respect. It is, in fact, the favourite last argument of the anti-planners that an economy which departs from the 'law of the market' can have *no means at all* of deciding how much each 'factor' of production is worth, or ought to be paid, and that accordingly it can have no means at all of pricing its products according to their real costs. So far, we have met this argument only with a *tu quoque*. Is there more to be said on the planners' side?

The Factors of Production. (a) Labour

Surely there is. But in order to say it we have to differentiate between the 'factors' of production, instead of treating them as if they were all of a common character. Land, capital and labour may all be 'factors' of production; but they are not all producers in the same sense, or recipients of the rewards for production. Land and capital receive no incomes, and can enjoy none. The incomes derived from them accrue to men who are regarded by law or convention as the beneficial owners of these things. Labour, on the other hand, is incarnate in the labourer, and cannot be

separated from him; and, except when the labourer is a slave, whatever is paid for labour accrues as income to the labourer. Let us, then, consider separately land and capital on the one hand, and labour on the other.

The purpose of the whole productive system we may presume to be the furtherance of the well-being and happiness of men and women. Accordingly, the laws of distribution, if they are to conform to this end, must apportion incomes primarily in relation to it. Incomes must, however, be distributed also with a second purpose in view—in such a way as to serve as incentives to production, as long as such incentives continue to be needed. The best distribution of incomes is that which best holds these two considerations in balance, giving the correct weights to the direct promotion of individual and family welfare on the one hand and to the provision of incentives on the other. But how are we to judge of what is best in this connection? Clearly, there can be no abstract principle of determination, and no exact quantitative test. The reaching of the right conclusion is a matter of common sense, just as it is a matter of common sense and not of abstract principle how much of its productive power a community can best devote to the increase of its future capacity and how much to the immediate satisfaction of its citizens' wants.

The Problem of Incentives under Planning

If we assume the amount of capital accumulation to have been decided by the planning authority, instead of being left to be settled, as under capitalism, by the extent of capitalists' willingness to invest their own and other people's money in instruments of production in the expectation of future profit, there remains the problem of providing for the immediate needs of consumption and for such incentives as may be needed to keep production at a satisfactory level. Obviously, the aim of a society which is planned for welfare will be to distribute in the form of incentives only as much as is necessary in order to elicit the required responses. The more equalitarian the general living conditions of the society are, the smaller will be the incentives that will be needed. This follows from the fact that a small addition to a relatively small income is worth more in terms of human satisfaction than a larger addition to a larger income, as well as from the fact that, when no one is rich, there is much less inducement to seek to become rich than when society is divided into widely separated income classes enjoying very different degrees of power and prestige. To discover how much is necessary, under any particular set of conditions, is a matter for trial and adjustment

in the light of experience, not for abstract theorising. All that can be said with confidence is that the magnitude of the incentives offered at the top end of the scale in capitalist societies is a by-product of the class system and is not the response to any fundamental law of economics or of human nature.

The Factors of Production. (b) Land and Capital

This brings us to a consideration of the other 'factors' of production—land and capital. Evidently, no inducement needs to be offered to land or capital, as such. The inducement, if any is needed, is to their owners to make full use of them, or, in the case of capital, to augment the supply. To the extent, however, to which land and capital, instead of belonging to private individuals, belong to the community itself, plainly no inducement need be offered to the owner; for the community has sufficient inducement to make use of its own resources for increasing the wealth and welfare of its citizens without offering itself bribes which would have to come out of its own pocket. Thus, to the extent to which the principle of common ownership is applied, one great source of inequality of incomes disappears, and with it goes the need to offer to personal skill and enterprise incentives of the size called for where there exists a wealthy class dependent on ownership and not on personal exertion for its enjoyment of luxury and power.

In a planned society in which the main resources of production are publicly owned inequalities of income will not disappear. But they will be drastically reduced, not only by the disappearance, or at least the very great diminution, of the classes dependent on ownership, but also by the greater efficiency of small rewards in eliciting effort when the underlying distribution of incomes is less unequal. It may be possible in such a society for one man to receive, in exceptional cases, ten times as much as another. It will certainly not be possible for him to receive a hundred or a thousand times as much.

In effect, what I am saying is that, in a society planned for welfare, the meaningless question whether each person is being rewarded according to his specific productivity will not arise. A man's income will be made up of two elements—a basic return, which it will be the aim of the planners to *maximise*, accruing to him as a citizen, by virtue of his needs and on the sole condition of his readiness to perform his civic duties to a reasonable extent; and a supplementary return, which it will be the aim to *minimise*, payable not as a reward for productivity, but as an inducement to

do his best and to give the community the kind of services that it requires.

What this means is that the community will need to fix wages and other forms of payment for work at levels which will in practice bring about the required distribution of man-power among the various branches of production and service, and will elicit in each type of occupation the necessary supplies of specific skills and efforts. Wages and salaries and other payments for work will thus represent not the economic results of production, but its basic costs. Pricing of goods and services will be determined, in normal cases, in accordance with these socially regulated costs of man-power, save to the extent to which the quantities of land and capital used in producing the various commodities are also taken into account.

Is Planning bound to be Arbitrary?

Let us leave over for the moment this complication of the costs of the non-human 'factors' of production, and consider how far we have an adequate positive answer, over and above the negative answer given already, to the contention of the anti-planners that there will be no valid way of determining what distribution of the powers of production will yield the best results because the labour costs which will affect prices, and therefore consumers' demand, will be in truth entirely arbitrary. The nature and amount of the inducements to productive efficiency that will be required will depend on what it is desired to induce. The pattern of inducements needed to bring about one pattern of production will be different from that needed to bring about another. The planners may be able to devise a pattern of inducements to fit the pattern of production which they have chosen; but the pattern of production itself is bound to be arbitrary, and this, it is said, invalidates the entire system as a means of promoting welfare.

But does it? Why is the common sense of the planners, guided as it will be continually by the actual *changes* in consumers' relative demands, a worse guide to the distribution of the resources of production than the higgling of a market dependent, as any market is bound to be, on the actual distribution of incomes? Is not such common sense likely to be, not merely as good a guide, but a greatly superior guide to sensible action? It will not be so, of course, if we assume that the planners are bound to be fools, or certain to be perverse; but why should we assume either of these things? Those who are anti-democratic on principle may be justified in assuming that, if the people choose

the planners, fools or knaves are bound to be chosen; but the contention comes strangely from those who profess to be upholding the right of the democratic consumer to have production organised according to his preferences.

In truth, of course, the anti-planners are upholding, not the right of choice of the democratic consumer, but the right of the moneyed man to have every shilling he is able to spend given the same weight in determining what is to be produced as the poor man's shilling. They are advocating plural voting by rich men, the counting not of heads but of shillings. Moreover, in doing so, they take it for granted that a landowner or a capitalist has the right to vote in respect of each shilling of his income just as much as the man whose income is derived from labour. Usually, they defend this thesis by maintaining that, unless this right is conceded, the land will not be kept in good productive condition and the accumulation and upkeep of capital will be brought to a stand.

Public Ownership and the Rate of Interest

This contention, we have seen, ceases to apply to the extent to which the community itself takes over the ownership of land and capital and therewith the responsibility for their maintenance and improvement out of the current product of industry. But it remains to be considered whether in the pricing of commodities any account should be taken of the relative amounts of land and capital, as well as of the labour, used in their making. Clearly, there is nothing to prevent a planned economy from doing this to any extent that may be thought desirable. Even if rent and interest are no longer payable to individual owners of the means of production, the State can charge to the cost of production of any commodity any amount it pleases as rent for land or as interest on the capital goods employed in producing it. "Ah, but," exclaim the anti-planners, "any such charges will be purely arbitrary; for even if the 'Ricardian' rent be still determinable by the varying productivities of different patches of land above the 'marginal' land,[1] there can be no way of settling what rate of interest ought to be charged unless there is a free capital market in which this can be settled by the play of the twin forces of supply and demand."

Lord Keynes has sufficiently shown that this is not the way in which, in fact, rates of interest are settled in the world of capitalism. War experience, in the second World War as compared

[1] I omit, as unduly complicating the argument, to consider how far rent is really determinable on Ricardian principles *under any economic system.*

with the first, has provided an even more cogent practical demonstration. The rate of interest is not, under capitalism as we know it to-day, a natural outcome of economic laws: it is a result of decisions taken either by the State or by those who control the money market. It is, in effect, arbitrary, and can be raised or lowered in accordance with opinions about what is desirable for the benefit of the community, or for the benefit of any group of persons who may get the power of decision into their hands. There is no 'natural' rate of interest, as the economists of other days used to believe: the rate is arbitrary, though *relative* rates for different types of loan are less arbitrary, under competition, than the basic rate or rates which affect the rest. It is therefore no valid point against a society planned for welfare that interest rates under it would be arbitrary, and would be settled by common sense and not by economic law. Full employment, which involves public regulation of the volume of investment, is plainly inconsistent with leaving interest rates to be determined by the voluntary supply of capital in relation to the demand for it. But that is nothing to worry about. If in the planned economy it is decided that a controlled interest charge shall be included among the costs on which commodity prices are based, the sole object will be to avoid waste of land or capital resources in the planned processes of production; and an adjustable rate, controlled by the planners, will evidently serve this purpose very much better than a rate which they have no power to control.

Is Economics a 'Science'?

The accusation that, under planning, everything will be 'arbitrary'—that is to say, settled by conscious human judgment and not by economic laws acting independently of men's conscious wills—is, indeed, the regular stock-in-trade of the economists of the so-called 'liberal' school. Why it should be preferable for men to allow their affairs to be guided by this 'invisible hand' of economic law these economists nowadays seldom attempt to explain. Adam Smith would have supported his preference—as indeed he did—by identifying the 'invisible hand' with God himself and attributing to a beneficent deity the establishment of a natural law which causes each individual, in pursuing his private economic interests, thereby to further the well-being of society as a whole. His more modern followers seldom invoke religion: they usually prefer to appeal to 'science.' In their eyes, economics must be a 'science,' or it is nothing; and they take it to be of the essence of the scientific method to concern themselves only with measurable quantities. Now, the law of the market, whatever its defects,

does undoubtedly measure against one another things which are incommensurable in physical terms, reducing to a common standard of equivalence not only goods of many different kinds, but also human services and the intangible services of capital. Not all things that these economists admit within the circle of their 'science' are actually measured in the market—for example, the land a man owns and farms, or the house he owns and lives in, or the produce he grows and consumes at home. But all these things can be reduced by analogy to similar things which are being bought and sold, and are therefore capable of having their values expressed in quantitative terms.

Only such things as can be measured directly or by this analogical imputation of market values are allowed by the 'scientific' economists within the pale of economic science. Other values, if they exist in an unmeasurable form, are non-economic, and therefore cannot enter into the field of economic studies. This would be all very well if the purpose of economics were merely to study what actually happens under the capitalist system; but the method breaks down when any attempt is made to apply it either to the study of pre-capitalist societies, to which its categories cannot be applied without sheer distortion of the significance of pre-capitalist institutions, or to the *criticism* of capitalist societies, or again to the Soviet Union, which has outgrown the categories appropriate to the capitalist system.

In our day, economics is needed as a guide to action, in situations in which the question is whether, and how far, to supplant capitalist institutions by institutions belonging to a quite different social pattern. The 'orthodox' economist of the 'liberal' school, confronted with such questions, finds his 'scientific' armoury entirely ineffective in dealing with them, and is apt to take refuge in the contention that, because the attempt to answer them involves categories and methods which are not recognised in his analytical 'science,' they must be nonsense questions, to which no rational answers can be found. Indeed, he is apt to go even further, and to assert that his categories are the only possible categories, and that any system which does not admit of being measured in terms of them can *ipso facto* be ruled out of court. If he is of a more accommodating temper, he may do his best to squeeze the inconvenient issues into a form in which he can pretend to measure them by his accustomed methods; and some economists trained in the 'liberal' school, but feeling a sympathy with socialist aspirations, have gone to fantastic lengths in imputing capitalist methods of valuation to the institutions of a socialist society.

The Need for a Human Approach to Economic Theory

The truth is, however, that an economic theory which has been essentially based on taking for granted the institutions and practices of capitalism is bound to need, not merely revision, but fundamental restatement as soon as these categories can no longer be accepted as beyond question. The capitalist mode of economic thought involved treating the labour of human beings as a commodity to be bought and sold in the market just like anything else. In order to do this, it had to ignore the essential difference between labour and other 'factors' of production—namely, that labour is incorporated in the human beings for whose support and happiness the whole business of production is exclusively carried on. The old economics started out from the 'market,' in which the labour of men and women is bought and sold alongside other things, without recognition of its different relation to the social system. As against this, the new economics, which has to pronounce judgment between capitalism and Socialism, or in favour of the one here and the other there, or of more or less of the one or the other, must start out, not from the market, but from the human beings for whose sake the market and everything else exist.

This new economics begins then by stating its problem in essentially different terms. Here, it begins by saying, are certain human beings, who need so to act as to promote their own common happiness and welfare. At the command of these human beings are, first, their own labour-power and secondly certain other resources of production, partly given to them by nature, but even so improved or laid waste by their past use or misuse, and partly man-made out of the materials provided by nature This distinction between natural and man-made goods is, of course, by no means absolute, and in most connections is no longer of great practical importance. The vital distinction is between labour-power on the one hand and all things usable by man, *save man*, on the other.

The social task, in its economic aspect, is that of making the best of all the productive resources, of both kinds. But there is, even at this point, an essential difference. If man is using a waterfall to generate electric power, his sole purpose is to get as much power out of it as he can with the least possible effort and using-up of other resources. No question arises of marring the water's happiness by causing it to work too hard. On the other hand, in the use of human energy this problem does always arise. If men are to be happy and to enjoy well-being, their labour must be neither so hard nor so irksome as to destroy their chance of

happiness and of physical and mental well-being. Man is not an instrument out of which the last ounce of energy is to be got: there is always a need to balance the illth of overwork or unpleasant work against the wealth which it can be applied to create.

Animals, a Marginal Case

Animals, in our day, are a marginal case. We extend to them, as living things, some feeling that they have a right not to be ill-used beyond what is necessary to make them serve the purposes of men. But we are still half-hearted about this: we do not consider whether an animal likes being fattened up, and we are much readier to be kind to our domestic animals, and to horses, than to cows or pigs. Few of us trouble to consider whether a cockroach likes being squashed; and huntsmen still blithely asseverate that foxes enjoy being torn in pieces. On the whole, in the economic sphere, we do not allow our sentiments of sympathy to interfere much with the use we make of animals for our human purposes. For the present, accordingly, animals must on the whole be classified with the inanimate factors of production, rather than with men. But this may not be so for ever; nor is it entirely accurate even now.

Men making Things

We have, then, as our primary data in economics, *men using things*. As the men are using the things for their own purposes, it is for the men to decide how much labour they are prepared to expend upon them and how much unpleasantness in the labour they are prepared to put up with for the sake of the product it yields. It follows that men's primary object must be to create as many products as possible for each unit of labour expended, subject to the qualification that the irksomeness (or in exceptional cases the pleasurableness) of the labour must also be taken into account. Man's purpose, therefore, must be to construct an economic system which will be as productive as possible in terms of effort, and as free as possible from unpleasant forms and conditions of labour.

Limitations and Conditions of the Use of Labour

The first thing to be observed in this approach to economics is that it makes such things as Factory Acts and Mines Acts not excrescences upon the general structure of the economic world, but basic parts of it. The regulation by law of the hours and conditions of labour is men's way of deciding how hard, and on what

terms, they are prepared to work; and the attempts of Trade Unions to regulate such matters by collective bargaining are consequences of the neglect by society to deal publicly with this fundamental requirement of a rational economic order. To coming generations it will appear fantastic that such matters were ever left unregulated, or that men were actually persecuted for attempting to regulate them, on the plea that regulation was a defiance of economic law. Such an attitude could, of course, exist only as long as social thought was based on a denial of democracy, and as the governing and theorising classes regarded it as natural and normal that the majority of men should be used as instruments to promote the happiness of the few. If many in the nineteenth century who deemed themselves democratic remained blind to the economic implications of democracy, the reason was that they connected public intervention in economic affairs with intervention designed to promote the exclusive interests of a limited governing class, and saw a nearer approach to democracy even in private capitalism. As it became clear that State intervention, in a reformed State, could be used to promote the welfare of common people, Benthamism changed sides. It can be seen changing in Chadwick's impassioned crusade for public health legislation, in John Stuart Mill's gradual and painful conversion to a half-socialist outlook, and still more clearly in the Socialist Benthamism of the early Fabians. The capitalists of the Industrial Revolution usually felt no qualms about working men, women and children as hard as the most ruthless driving could make them work. To-day, we recognise that it is the State's business to set limits to the exploitation of labour-power; and this recognition is caught up into, and becomes a primary principle of, the new economics.

Full Use of Productive Resources

Having set limits to the intensity and irksomeness of labour, and having provided for exempting some of the citizens altogether from it (e.g. schoolchildren and pensioners), the community has next to see to it that what labour remains shall be put to the fullest and most economical use. A policy of full employment thus appears, like factory legislation, not as an excrescence, or as an exceptional measure for combating abnormal depression, but as a cardinal principle of the economics of welfare. Unemployment and under-employment are wastes of resources which are needed by the community for raising its standard of living to the highest possible level. Accordingly, they cannot be tolerated; and any rational economic order must start out by providing useful jobs

for all who are available to fill them. This requires, not merely that the total number of jobs shall be enough, but that they shall be jobs which the available workers, given the correct training and preparation, are capable of filling. It involves further that the jobs shall be in the right places—for example, that there shall not be a surplus of men's jobs in one area and of women's jobs in another, and that the distribution of jobs shall correspond roughly to the pattern of houses in which those who are to fill them can live, and of amenities to which they can resort outside the hours of work. In other words, as we shall see in other connections, a policy of full employment involves planning in the triple sense of planning the general character of production, planning its location, and planning the towns and country areas in which the productive establishments are to be, and those who work in them are to reside. All these things, instead of lying either on or outside the borders of economics, become central and primary as soon as we begin to approach the economic problem, not from the market, but from the human, end.

The Question of Efficiency: Research and Training

It is necessary to avoid, not only wasting labour through unemployment, but also wasting it through inefficient use. This is partly a matter of getting the inducements right, so as to persuade workers of every grade and category to give of their best. But it is also very much a matter of giving the workers the right tools, of good business organisation both in the factories and in distribution and finance, and of arranging for a balanced relationship between factory and factory and between trade and trade, and also in the realms of international commerce and development. It is the community's business to see that the productive equipment of every industry is thoroughly up-to-date and maintained in good order, and to step in, even where it is not running an industry as a public service, to ensure the remedying of any deficiencies in these respects. Nay, more, it is the community's business to see to it that there is adequate provision for promoting new discoveries in the arts of production, and for diffusing the application of known advances over the widest possible field. Scientific and industrial research is thus eminently a matter for public care; and the conception of research must be wide enough to include development (which is often the most costly part) and to prevent the monopolisation of new discoveries from limiting their use.

It is also clearly the community's business to promote efficiency by fostering technical as well as general education, and by

providing or ensuring the provision of training in the arts of business management and organisation. The old-style employers, managers and foremen were expected to pick up these arts by practising them, without any special training, though it was always recognised that skilled craftsmen needed to be trained by apprenticeship. The modern conditions of business require not only a substitute for the old forms of apprenticeship of manual workers, where they have fallen into decay, but also careful training for managerial and organising functions. The new conceptions make management a profession, or rather a whole group of professions, instead of a mere delegation of functions from an assumedly all-knowing capitalist entrepreneur. Modern industry is no doubt more mechanised, and often supersedes old forms of craftsmanship; but for all that it calls for more, not less, trained intelligence than the old ways did. If it has relatively fewer highly skilled machine-tenders, it has both many fewer sheer labourers, called on to use only brute force, and many more skilled technicians and supervisors, managers and organisers in a host of special fields. Moreover, the craft skill which it still demands has for the most part to be of a higher order than was called for from the general run of craftsmen in earlier days.

In saying that the community has to assume responsibility for all these tasks, I am not saying that it must necessarily carry on all of them as public services. If a thing can be done adequately without the State doing it, and if the leaving of it in private hands does not involve its perversion to serve private interests against the general welfare, there is no reason why it should not be done privately. What I am saying is that, on the basis of the new human economics, the community must be responsible for ensuring that it is done well. The community cannot, if the general welfare is at stake, leave it to chance whether such things as these are done well or ill. They must be done well, if the community's labour-power is to be put to effective use for the promotion of human well-being.

Land and Capital in the Service of Mankind

The view of economics which sets out from the human being, regarded as both producer and consumer, and separated sharply from other 'factors' of production, enables us to get these other 'factors' into the correct perspective as the servants of man—not his competitors in the market. It makes plain that these other 'factors' need to be so organised as to give man the fullest possible help in performing his essential economic tasks. It leads straight to the conclusion that these other 'factors' constitute a communal

possession, to be used in combination with the community's labour-power in order to enable the whole community to get the best practicable return for its efforts. To the extent to which private property in the means of production is recognised, it can be only as property in use, and subject to the overriding condition that the use made of it furthers, or at least does not prejudice, the public interest. It is quite consistent with this principle for the community, if it thinks fit and for as long as it thinks fit, to delegate the right of use of any particular kind of property in the means of production to its citizens, individually or in groups or corporations. But the delegation must be always conditional on the satisfactory performance of any service which the property is needful to perform, and must be revocable at any time on grounds of public interest.

Public and Private Enterprise

Thus, the principle just laid down does not prejudge the issue between public and private operation of industry, but only restates the problem in its proper, democratic form. The best way of operating industry so as to serve the public interest is an open question, to be decided on grounds of expediency in each separate case. This, however, is not to say that it is simply a matter of the relative technical efficiencies of public and private enterprise, though that aspect is of course highly important. It is also a matter of (*a*) the conditions of the persons employed, including their psychological condition, which affects their readiness and ability to give of their best; (*b*) the purposes towards which the technical efficiency is directed—for it is fully possible for an industry to be very efficient technically and yet to serve the public very ill, by seeking high monopoly profits instead of maximum production; (*c*) the relation of the industry to others, for it may be very important to secure a right co-ordination between complementary or competing industries, so as to fit them in to the requirements of the general plan of production; and (*d*) the scarcity or plenty of the 'factors,' including man-power, which the industry uses up—for even if an industry is using its resources in an efficient way, it may still be the case that some of these resources could be more useful to the community if they were transferred elsewhere.

There is, moreover, the question of power. If it is inconsistent with democracy, except at moments of special emergency, that dictatorial political powers should be in the hands of any one man or group of men, it is fully as inconsistent that any industry should be privately run under conditions which will confer on

those running it dictatorial economic power, either over the lives of employees or over the community as consumers. When this issue of dictatorial power is raised, it necessarily takes precedence over the question of technical efficiency; for it is better to have an industry inefficiently than anti-socially conducted. There is, however, no reason why this choice should often arise in practice; for the industries and services which are most likely to give rise to dictatorial power if they are left in private hands are for the most part also those which can be most easily run with high efficiency by public boards or corporations. The chief possible exceptions are the industries of newspaper production, film production, and perhaps broadcasting, which occupy a very special position because the services rendered by them are services of opinion and are therefore closely bound up with the problems of free speech and freedom of thought—problems which it is most convenient to consider, not here, but in connection with the issues of political democracy.

A Summary

We may now proceed briefly to restate the broad conclusions reached in the foregoing pages:

1. Economic theories need fundamental restatement in terms consistent with the principle of democracy, which involves regarding each man as an end, and no man as mainly a means to the ends of others.

2. In especial, economics must begin from the human end and not from a study of 'the market.' It must therefore draw, at the very outset, a sharp distinction between human labour and other 'factors of production,' which are only auxiliaries to human labour and have not, as it has, a dual aspect. In other words, labour is not a commodity on an equal footing with other commodities, because it is incorporated in men, for whose benefit the entire process of production is carried on.

3. Labour is not a commodity to be used to the limit of its productive power, regardless of the happiness and well-being of the men and women in whom it is incorporated. It is for these men and women to say how long, how hard, and under what conditions they are prepared to labour, and at what point they prefer either more leisure or less irksome labour to a larger supply of goods and services for consumption.

4. It is accordingly a necessary function of a democratic society to regulate the conditions of work, both in order to prevent excessive labour and bad conditions and to make the

circumstances of production as pleasant as they can be made without too great a loss of output. (There may, of course, in practice be no loss at all; for good conditions often lead to higher efficiency, and more output is often produced in fewer hours and with less effort when limitations are applied.)

5. It is also a necessary function of a democratic society to prevent waste of labour-power either from unemployment or under-employment, or from the putting of the labourer to work with inefficient tools, or from bad management and organisation; and further positively to promote the better use of labour, by encouraging and undertaking research and the development of its results, and by fostering and undertaking all necessary forms of training and education, including training in management and business organisation.

6. This principle involves public control not only over the total volume of employment, but also over its local and industrial distribution, so as to ensure that the productive plan and the labour force fit together as neatly as possible, both nationally and in each area. It also involves a public responsibility to ensure that homes shall be available for people near where they can find employment, and, as far as possible, that work shall be made available to people who have homes near where they actually live.

7. It follows from the initial distinction between labour and other 'factors' of production that these other 'factors' ought to be regarded, not as the equals or competitors of men, but as their servants, and ought to be at the disposal of the community, which must arrange for their use in the ways best calculated to further the public interest, and must endeavour to prevent all waste of them, either through leaving them idle or through using them for purposes which do not serve the public interest to the fullest possible extent.

8. The right to private control or operation of the means of production can therefore be recognised only subject to the inalienable right of the community to take possession of any such property whenever its public operation is deemed to be in the public interest; and, even so, private operation must always be made conditional on the acceptance of any limitations or terms that may be deemed publicly expedient, and must not be allowed in any case where it is liable to lead to the placing of dictatorial economic power in private hands.

9. Subject to these overriding conditions, the issue between public and private enterprise is one of expediency, and not of principle, to be settled in each case according to the special

circumstances of time and place. It is not, however, a question which can be rightly settled without taking due account of the interrelation of industries, or of the appropriate position of any industry in relation to the general economic plan.

10. Finally, the new approach to economics by-passes the old question whether, under capitalism or under any other economic system, each man is being rewarded according to his specific contribution to value created. It replaces this question by another, asking how large differences in incomes are needed in order to provide adequate incentives to production, with the primary affirmation that these differences ought to be made as small as possible, and that the largest possible proportion of the national income ought to be devoted either to communal services or to providing all the citizens with basic incomes for free spending up to the highest level compatible with the community's mastery of productive power.

CHAPTER IV

THE SOCIAL PATTERN AND THE TREND TOWARDS SOCIALISM

EVERY HUMAN SOCIETY HAS two aspects. It is both a result of men's adaptation to a particular environment and a result of men's adapting the environment to further their ends. Men are compelled to shape their ways of living to fit in with the physical conditions under which they have to live; but these conditions are modifiable, within limits, by men's action upon them: nor do they, even where they cannot be modified, prescribe any absolute pattern of living. Men can both shape their environment and adapt themselves to it in varying ways: there is a region of choice, or of chance, within which real alternatives are open to them, at any rate until the choice has been made and its outcome consolidated into a social habit. Every community embodies a pattern which is the result of this double process—of adaptation *to* the environment and of adaptation *of* the environment to certain human notions of value. Every social pattern is both an affirmation of some values and a denial, or depreciation, of others: every community values some human qualities highly and others little, or not at all. Every community affords some opportunities and withholds others, raises the possessors of some qualities and depresses others whose qualities are different, excludes as well as affirms. Every pattern of living involves limitations as well as openings for achievement, and because of what it is and values excludes potentialities which cannot be worked in. There is no such place as Utopia, because every Utopia involves contradictions. Every Utopia includes elements which cannot in practice be fitted in to a single pattern of living or co-exist in a single community without introducing frictions and contests. There can no more be a perfect community than a perfect man—and for the same reason. Every community has the defects of its qualities, as well as the qualities of its defects.

Patterns of Living

Men in communities have to pick their patterns of living, within the limiting conditions prescribed to them by their environment, to the extent to which they do not accept passively

the patterns into which they were born. If the environing conditions are static, sheer passivity may carry them on from generation to generation almost without change, each generation neither better nor worse off, neither wiser nor more ignorant, than its predecessor. But this can happen only where communities are sheltered from contact with widely different attitudes and patterns of living. Communities which have continued thus passively for many centuries may break up very swiftly if their environment is changed, either by physical forces such as to upset the basis of their economic life or by the impact of human forces from outside. The advent of white men has had a prodigiously disintegrating effect on many primitive societies which have been unused to conscious processes of social creativeness or adaptation. Societies which have never consciously modified their patterns of living, or have been long unused to doing so, find it very hard to adapt themselves to changing conditions and contacts. If the cross is too wide they are apt simply to decay, or even to die out altogether under the impact of forces which they cannot understand.

As against this, modern, developed communities are used to change, expect change, and within limits are always trying to bring it about. They possess means of adapting their patterns of living to new conditions as they arise, whether these conditions are forced upon them or are of their own making. They expect change, because their attitude to their environment is one of finding out, and not of passive acceptance. The environment is for them not something fixed, to which they have to adjust themselves as best as they can. It is something changing, and capable of being changed. It alters its character and its relation to them as they find out more about it, and become more skilful in controlling its behaviour. They possess, as an essential part of their social pattern, not merely diviners and medicine men, who are knowing about the environment and skilled in applying to the influencing of it certain ancient esoteric rules, but also scientists and social explorers, whose business is one of discovery and mastery of the realm of 'nature.' Mechanisms for developing this mastery are socially recognised, and men expect them to lead to alterations in their conditions of living. They must of course still adapt themselves to their environment; but the environment itself has become adaptable, and even startling in its capacity for change.

Science and Society

This is not to say that science simply increases man's power over 'nature,' and therewith his ability to shape his physical

environment to serve his ends. Science is no mere handmaiden, to do what she is bid. Scientists do not discover only what they are looking for, or are pleased to find. Some of their discoveries are highly inconvenient, many ambivalent for good and ill, only a few unqualified blessings. Or, if these words impute more moral notions than I am justified in introducing at this stage, let me say that science and its applications do not only aid men to get rid of inconveniences of which they are aware or to satisfy desires previously unrealisable, but also face men with new problems and force on them social changes which upset the patterns of living in quite unexpected and sometimes highly inconvenient ways. Scientific discovery is not unalloyed social gain, even for communities which are well equipped with adaptive mechanisms and thoroughly used to change and novelty of behaviour. The scientific attitude does, however, to the extent to which it permeates society, substitute expectation of change for expectation of stability, and shake men free from the notion of the art of living as simply one of accepting and making the best of a traditional pattern of social relations.

Resistances to Change

I do not, of course, mean that modern, developed communities are wholly fluid, or as fluid as purely scientific forces would tend to make them. On the contrary, they offer strong resistances, at many points, even to changes which appear to be plain responses to new knowledge. But the quality of these resistances tends to be different from that of the iron traditionalism of communities in which new knowledge is not expected, and no recognised means of assimilating it exist. The resistances in developed, scientifically minded communities are usually not mere negatives. They are oftener attempts to limit, or to direct change, so as to fit it into the existing social pattern with the least possible disturbance, rather than to oppose it altogether. The result is, at its best, that the pattern of living is gradually altered, without being broken up. It grows into something different, without losing its continuity, or ceasing to be itself. If there were no such resistances, communities would be subject to the perpetual threat of dissolution under the stresses set up by new discoveries leading to innovations in ways of living. The resistances, under favourable conditions, help to squeeze innovation into manageable shapes; and the squeezing process alters the shapes of old habits as well as of what is new. This is the way of social evolution, at its best; but it is by no means what always occurs.

Communities, I have said, would break up if the forces of

innovation, based on scientific discovery, got their way without any resistance from established institutions and social habits. But they would break up no less if the resistances were so strong as to prevent the necessary adaptations from being made. For in that case there would arise an irreconcilable contradiction between the formal structure of the community and the values enshrined in it on the one hand and the aspirations of a growing number of its members on the other. A modern, developed community cannot so isolate itself from its neighbours as to stifle new knowledge to the extent needed for keeping it from the minds of the more intelligent of its own people. The advance of scientific knowledge is a world process, common in a high degree to communities which have reached the required technical stage. A single community can no doubt, as Nazi Germany did, twist advancing knowledge to serve its own ends; but it cannot shut out knowledge, or get away from the need for social adaptations as knowledge expands. Therefore blank resistance to social changes which knowledge is germinating in the minds of men is bound to set up contradictions fatal to the social pattern. Discovery means new facts to be taken account of; and communities cannot keep up patterns of living which have got out of relation to the inexorable logic of known facts and possibilities. Discoveries are facts, which communities of men must assimilate, or else decay. They have it in their power to regulate, within limits, both the pace of assimilation and its specific character, by choosing one practicable way of adaptation in preference to another. What they cannot do is to stand immovable in a changing environment.

Two Modern Problems

Here and now, in this twentieth century, the advanced nations of the world are confronted with two closely related but essentially different problems which affect their fundamental patterns of living. At bottom, these problems arise out of a common cause—the immense leap forward in scientific mastery of men over things. Scientific knowledge of the physical world, and still more the technical power of applying it, have moved with so gigantic strides as to make men's physical environment radically different from what it was less than a generation ago. The most spectacular manifestations of this scientific revolution are, first, the annihilation of distance, and secondly the terrifying increase in destructive power. Moreover, though what has been accomplished already in both these respects is much, the world is plainly not at the end of the process, but quite near the beginning. There is more, much

more, to come, and to come soon; and accordingly the task of adaptation that faces mankind is not simply that of assimilating what has been already accomplished, but also that of being ready to assimilate a great deal more.

I have begun with the two most spectacular manifestations; but let us be clear that they are only manifestations, and not the thing itself. They are applications, to transport and communication, and to the arts of war, of a scientific revolution which is destined to affect the entire structure of human society, and the living pattern of every community and of every man, woman and child in the world. The impact of this scientific revolution will be uneven: it will take time to communicate its effects to the uttermost ends of the earth. But it is of such a nature that no one and no society, no matter how unknowing or how isolated, will be for more than a little time beyond range of its effects.

Abolition of Poverty

What has happened, or is happening, is nothing less than this. In all previous ages, up to our own, poverty has been the unavoidable lot of the great mass of mankind. Not the poverty of the slum, or the social outcast, but poverty in the sense of sheer shortage of what is wanted to give a satisfactorily rounded life, good health, and opportunity for mental and moral development. Throughout the history of mankind, it has been possible for some men to enjoy these advantages only on condition that others, immensely more numerous, went without them. Every aristocracy has enjoyed advantages—real advantages as well as the dubious advantages of superfluity—which it has been physically impossible to extend to the generality of men, even within the same community, much less over the whole world. Every rich or tolerably well-to-do person has always known that he enjoyed his prosperity on these terms. Whether he has taken it for granted, or justified it as his right by virtue of innate nobility or of service, or felt uneasy about it, or simply grabbed it, he has always known that, if he had it, most others could not have it too. The struggle for bread, and for everything beyond bread, has been an inexorable fact, from which no man who was not content with utter poverty could escape. Anyone who advocated economic equality, or communism in the older sense of the term, in any age up to the present was in effect condemning everybody to a narrowly limiting poverty, at all events unless he restricted his notion of equality to some small community of men, productive enough to live tolerably well as equals, provided they did not bother their heads

unduly about the poverty lying beyond the gates of their enchanted city or island.

True, at certain times in the past certain men have persuaded themselves that this was not so. Robert Owen so persuaded himself under the influence of the great enlargement of productive power in Great Britain and America that followed on the Industrial Revolution and on the contemporary advances in the agricultural arts. But Owen was mistaken. The improvements in productive capacity were real; but they were not at that stage great enough to make possible an end of poverty, even if they could have been diffused over the whole earth.

The Population Problem

It may be argued that again to-day it is a mistake to suppose that the technical means of conquering poverty are in men's hands. But the conditions are radically different from those of the early years of the nineteenth century, when, while Owen foretold the millennium, Parson Malthus looked forward only to an increasing pressure of population on man's narrow means of subsistence. We have, no doubt, still vast population problems ahead of us in India and in the Far East, where for some time yet the fruits of technical progress may be swallowed up by an unmanageably rapid rise in the numbers of the people. But we know now, as Malthus did not, that there are limits to this fecundity of the human race—or rather to the effects of a falling rate of infant mortality upon total population trends. In Western Europe, we have passed from the fear of being too many to that of being too few; and we can feel fairly sure that less advanced countries, as they develop in the arts of industry and hygiene, will pass through much the same phases of vital evolution as we have experienced ourselves. Rapidly rising population, in countries only learning the mastery of nature, may defer, but cannot in the long run prevent, the improvement of productive power *per head of population*, on which the possible standard of living depends.

Poverty no longer Necessary for Reasons of Technique

Subject to this delaying factor, which is of course very important, I believe the problem of productivity to have been solved, or to be at any rate very near solution, *in a purely technical sense*. There is no longer any absolute reason, arising out of the weakness of our power over nature, why we should not, almost at once in the more advanced communities, and before very long in the less advanced, produce enough wealth to lift everyone, not

merely above primary poverty, but into an affluence sufficient to provide the means for a satisfactorily rounded life. There is, accordingly, no longer any absolute reason why the well-to-do-ness of some should imply and involve the ill-to-do-ness of others. There is no longer any absolute barrier in the way of our going, at any rate in the more advanced countries, as far as we wish in the direction of economic equality, without condemning everybody to a standard so low as clearly to fall short of reasonable human needs and desires.

There is no absolute reason; but it is, of course, no simple matter to transform a technical possibility into a practical working reality. Even in the most advanced countries, the actual as distinct from the potential output of wealth falls still far short of what is needed; and in the less advanced countries the situation is infinitely worse. Let us confine our attention for the moment to the more advanced countries which have been living under the system of capitalism.

What limits Output?

In these, except in time of war, output has been limited, not by the technical possibilities, but by the expectation of the profits to be derived from producing more or less. In wartime, this is not so; but then a large part of the national man-power is withdrawn from production and applied to other uses. Even so, very large output is achieved with reduced man-power; but the total wealth produced under war conditions is obviously no indication of what could be produced in time of peace, if all the country's man-power could be applied to the task. The experience of war serves only to show how great the normally unutilised powers of production are. It shows plainly that they are far in excess of the apparent loss of production due to leaving a substantial fraction of the available workers unemployed.

If the limit to output in time of peace is not technical, evidently no advance in technique will of itself remove it. Thus, immense advances in technical power to produce may be without effect on the total volume of production unless the non-technical obstacles in the way of expansion can be overcome. Technical advances will doubtless cause certain goods to be made at less real cost, and more of some goods to be made than would have been made without them. But more output of one kind may go with less of another; and the reduction in costs may mean the unemployment of redundant workers, rather than their employment elsewhere. I am not saying that this always happens. It does not. But enough of it happens to make our advances in actual production lag an

immense way behind our advances in technical productive power.

What is the technical power to produce? It is the knowledge of the means which can be relied on, if they are applied, to yield certain technical results. The translation of this knowledge into practical productive capacity requires, as a rule, the manufacture and installation of improved machinery, power plant, and other requisites, which have themselves to be produced at certain costs in man-power and in the use of materials and existing capital equipment. Someone has to be prepared to order the production of this equipment before the technical possibility can be translated into a positive capacity to produce. Whether anyone will be prepared to do this depends, in our existing capitalist societies, on the forming of an expectation of profit, on a sufficiently attractive scale, to be derived from the investment. Moreover, even if this expectation exists and the investment is made, the effect may be, not to increase total output, but merely to drive less efficient instruments of production out of use, leaving the amount of production as before, but the labour used in making it less. Even if total output is increased, the increase may be much too small to reabsorb all the labour that has been displaced.

New and Old Capital

This extinction of old capital values as a result of the development of more efficient instruments of production is, of course, an essential part of the practice of capitalistic competition. As long as capital instruments were not very costly in relation to the selling prices of their products, the process appeared to work fairly easily, and not much account was taken of the wiping out of existing capital values before their physical life had been exhausted. But, as plant became much more costly in relation to the current costs of manufacture, the situation changed. Owners of plant threatened with obsolescence viewed with the greatest alarm the prospect of having to write it off, and were prepared to take any means within their grasp to stave off the calamity; while, even from the social standpoint, it became impossible to contemplate with equanimity the prospect of technical developments which might render entire great industries obsolete. Who could contemplate simply writing off the railways if alternative forms of transport appeared to offer greater advantages in terms of real cost; or writing off all the mule-spinning capacity of Lancashire if ring-spinning seemed technically superior; or, in effect, condemning to death any large section of industry which embodied costly capital assets and affected the fortunes of many thousands

of shareholders and proprietors—to say nothing of many more thousands of workers and their dependants?

The new situation has another aspect. In many cases the new, technically superior methods of production are such as can yield up their technical advantages only if they are installed on a very large scale, and are enabled thereafter to run at or near their maximum capacity. If the scale has to be large, there are few who can afford to embark upon the venture. In such branches of production, entrepreneurs of initiative cannot begin on a small scale, and work their way towards a larger capacity. Investment becomes a matter of all or nothing; and in these circumstances it is often the case that in practice the only agents who can introduce the new methods are the existing large firms which have a strong vested interest in the old. If they erect new plants, they will be competing, not with rivals whose misfortunes they may regard as no affair of theirs, but with themselves. It is their own older plant that they will be driving out of business, and their expectations of profit from venturing on the new will therefore be subject to a deduction in respect of their expected losses from the writing off or down of existing assets. They will accordingly not be tempted by a prospect of gross profit that would be enough to attract them were it not subject to any countervailing loss.

If Demand were Unlimited——

If the demands of the market were unlimited, these deterrents would not apply. It would then be possible for the capitalists to keep the old plant running beside the new, scrapping it, subject to the exception made later in this paragraph, only as it wore out physically and had to be renewed. The product could then be sold at a price fixed in relation to the highest cost of production per unit, and a surplus profit would arise on each unit produced in a more efficient way. Such a situation would be a capitalist paradise, with what Marshall used to call "producers' surpluses" accruing right and left at every advance in technical efficiency. Some old plant would still be scrapped before it was worn out, but only when no labour could be found to man it—all the available labour being needed to man the superior instruments of production yielding a larger return. This is what might happen if capitalist societies could actually succeed in establishing conditions of 'full employment'—that is to say, conditions under which the first rule of the society would be that all the available labour must be profitably employed.

In fact, no such situation ever has existed in a capitalist society; and in my view none such ever will. For consider what it would

involve. Selling prices would have to be such as to keep in operation enough of the less efficient instruments to take up all the available labour. In view of the very wide differences in efficiency between old and modern plants, each able to work to full capacity, immense surplus profits would accrue from the operation of the more efficient plants. The workers, seeing these profits, would demand higher wages—the more so because of the high prices—the consumers, seeing them, would press for lower prices. But either a rise in wages or a fall in prices would render unremunerative some of the less efficient plants, and would thus drive them out of production. Full employment would then have to be restored by providing still more up-to-date plants; and as these came into production the same situation would recur.

Moreover, the situation here postulated implies that there would be a demand, at any price needed to keep all the available labour employed, for all that could be produced. There is no absolute reason why this should not be the case; for the high prices would inflate the incomes of profit-makers, who would be free to spend them either on new capital goods or on consumers' goods and services. If they spent their surplus incomes largely on consumers' goods and services, the effect would be simply to bring about a shift towards luxury production; and this would probably increase the discontents both of the workers and of the poorer consumers, and would intensify their respective pressures for higher wages and lower prices. If, however, the surplus profits were spent mainly on capital goods, the effect would be to drive old instruments of production more rapidly out of use, because of a shortage of workers for keeping them in action. Only if the recipients of surplus profits refused to spend them at all would it become absolutely impossible to keep demand at a high enough level to absorb all that could be produced.

A state of affairs in which, either on account of rising wages and falling prices or on account of high savings by the recipients of surplus profits, new instruments of production were continually driving older instruments out of use long before they were worn out may appear, on the face of the matter, to be thoroughly desirable, as ensuring steady and rapid technical progress. There are, however, serious difficulties. If the high investment is based on high profits, derived from high prices and low wages—that is, if the pressures from consumers and producers are successfully resisted by the capitalists—the capitalists must be induced to invest continuously in competition with themselves, so as to render their own existing capital instruments obsolete. Is not a large section of the capitalists likely, under such conditions, to hold

back from investment, in the hope of preserving existing capital values? To the extent to which this occurs, equilibrium can be kept only if the State steps in and, by itself investing in new capital goods, maintains the total current demand for goods and services at the required level. But State investment may under such conditions further discourage private investment, and no limit can be put to the amount of public investment that may have to be made. Instead of capitalism, before long this developing situation might, as we shall see, lead straight to a kind of socialism.

On the other hand, if the need for new investment to reduce costs arose from successful pressures from producers and consumers for higher wages and lower prices, a different set of forces would be put in motion. Full employment, under capitalist conditions, involves the maintenance of profit incomes at a continuously high level and—what is the same thing stated in another way—the maintenance of prices at levels dictated by the costs not of the most but of the least efficient methods of production actually in use. It involves that every rise in wages and every fall in prices must be offset by a fall in costs due to more efficient production. That this should come about would, no doubt, be in full accordance with the traditional laws of political economy. It would, indeed, reflect precisely the conditions that were assumed in these laws, but have never been found fully in existence in any capitalist society. The classical economists, it has often been pointed out, always assumed full employment; and they assumed also that the benefits of increasing productivity would be passed on, if not in higher wages, then in lower prices to the consumers. Naturally, if we proceed on the basis of assuming continuous full employment in a capitalist society, as we have just been doing, we arrive at a state of affairs closely resembling that which they derived from the same basic assumption. The only difference between our assumption and theirs is that, whereas they assumed full employment to arise naturally out of the competition of the labourers for jobs, we are assuming it to be maintained deliberately by the action of the State in keeping demand up to the level required to absorb all the available man-power.

Heading for Socialism

But this difference, it will be said, totally alters the situation. The workers, relieved of the fear of unemployment, will now be in a position to exact higher wages, or the consumers lower prices (but not both) to the extent to which technical advances actually applied reduce production costs, so as to leave the profit margins

intact. Beyond this it will not be possible to go, without adversely affecting the volume of employment, which would then have to be restored by further investment. As profits on new and efficient instruments of production will still be high, and the investment will offer good prospects of profit, there seems to be no reason why it should not be made. But will the non-capitalist sections of the community be prepared to allow matters to go on in this way? Will they not press, as consumers, for lower prices, and, as workers, for higher wages, beyond what the process of improving productive efficiency will stand? Surely the consumers will argue that the high profits secured by the entrepreneurs show that goods could be sold more cheaply, and the workers that the high profits prove that still higher wages could be paid; and both these claims will be correct, but only on the assumption that wages need not be based on the productivity of the workers whose labour yields least value, because they are employed on the least efficient machines, and that prices need not be based on the highest costs of production. If average costs and average productivity, instead of marginal costs and marginal productivity, can be taken as the basis for fixing prices and wages, consumers and workers can fare better, at the expense of profits. But if that happens, and surplus profits from the use of the most efficient instruments of production disappear, the incentive to invest in such instruments is destroyed, and private capitalists will no longer be willing to provide them out of their reduced incomes.

Thus, the pressure of wage-earners and consumers for higher wages and lower prices are factors making for a high level of investment, because their effect is continually to drive old instruments of production out of use, but are this only as long as wages and prices continue to be settled in accordance with orthodox marginalist principles. If either of these pressures is successful in inducing a departure from the marginalist principles and in substituting average for marginal productivity or cost as the basis for wages or prices, one of two things must happen. If each firm has to pay the wages thus settled and to sell at the prices based on average costs, the less efficient firms will be driven out of production at a greatly increased rate, and a much higher level of new investment will be needed for replacing them. If, on the other hand, costs are pooled among the high and low cost firms, the less efficient firms will be enabled to remain in production; but the profits to be expected from new investment will be greatly reduced, and the willingness of entrepreneurs to invest will be affected.

This constitutes a strong case against pooling of costs, such as has been applied in the coal-mining industry prior to nationalisation, if reliance is to be placed on private investment for the supply of new means of production embodying up-to-date techniques. On the other hand, if there is no pooling, the need for new investment will be increased, but at the same time the prospect of profit from it will be reduced if the investors are no longer to retain the full advantages of the superior efficiency of the new plant. Prices based on average costs will be lower, and wages based on average productivity higher, than under the marginal system; and there will be, in this case also, a tendency for the volume of private investment to decline.

In either event, then, it will be practicable to maintain full employment only if the State steps in to sustain investment at the level required. The State could do this either directly, by itself undertaking enough investment to supplement what private agencies were willing to provide, or indirectly, by the State or the banks on its behalf inducing additional private investment by making capital available on especially easy terms. In other words, the State could either step into the private capitalists' vacant shoes, or subsidise private capitalism in order to induce it to keep up production to a satisfactory level.

The first of these policies would evidently lead to a gradual substitution of State Capitalism for private capitalism, so that the State would come to be the owner of an increasing proportion of the instruments of production, and especially of the most up-to-date. Private capitalism would decay, and would at last hold its own only in the industries which require relatively little capital and produce on a relatively small scale. A kind of Socialism would be introduced gradually, as the outcome of the pursuit of full employment.

The second policy would have a different result, as long as it lasted. It would make private capitalism manifestly the pensioner of the State, and the State manifestly the upholder of a capitalism no longer able to stand on its own feet. The outcome would be, almost certainly, a political revolt of the people, which would lead to Socialism by a different road. For why should the people continue to pay the capitalists tribute, if the alleged service of capitalism as the provider of capital and enterprise is no longer being performed?

Is there a Stopping Point?

What I am arguing, in effect, is that the pursuit of full employment in a capitalist society will lead unavoidably to conditions

that will end up in some sort of Socialism. It may, however, be contended that this need not happen if neither the wage-earners nor the consumers press their demands beyond what can be met without decrease of the profit-margins accruing to the more efficient entrepreneurs. This, no doubt, is the vision of the future which appears before the eyes of the more sanguine upholders of capitalism, especially in the United States. It involves, however, the holding of an exceedingly neat balance; for a full employment policy clearly cannot work unless the outlets for consumption are sufficient to absorb all that can be produced, over and above what has to be produced to meet the current demand for investment goods. Wages and prices must be held exactly at the combined levels which will achieve this result. But can they be so held, when it will seem to most wage-earners that wages are too low, and to most consumers that prices are too high, in view of the big profits which will be accruing to the owners of the more up-to-date instruments of production?

There is, indeed, a possible way of preserving this precarious balance, if the demands of wage-earners and consumers are met, not by raising wages or reducing prices, but by taxing profits and using the tax-proceeds for the expansion of the social services. But this solution too has its difficulties. High taxation of profits is bound to react on private investment, not so much through lowering the net incentive to invest as by reducing the incomes from which funds for private investment are mainly drawn. If capitalist profits are largely taxed away and used for social services, it will become necessary for the State to supply the new capital which will no longer be forthcoming from private sources, and thus, again, Socialism will come in, by one or other of the two roads indicated in the preceding discussion.

There is nothing accidental about all this. It is the logical outcome of the acceptance of political democracy. If once the power to determine the social structure is given to the common people, they are certain, sooner or later, having discovered their power, to use it in order to insist on increasing both their share in the national wealth and the size of the cake that is available for sharing. This leads them to insist, first, on being maintained when they are unemployed or sick or past work—that is, on a development of social services financed, at any rate in part, by progressive taxation. It leads them to demand, secondly, that the State shall assume the responsibility for finding them work and for maintaining production at the highest practicable level. The first demand capitalism can meet without surrendering any of its key points of power: the second, as we have seen, it cannot meet

without gradually forfeiting its authority. Yet the second demand, as well as the first, is certain to be made, as soon as the common people get it into their heads that the power to shape society is ultimately theirs, and does not belong of right or prerogative to a limited class of super-citizens, set apart from the rest.

CHAPTER V

THE EVOLUTION OF SOCIALISM

THE WORDS 'SOCIALISM' and 'Socialist' came into use first in England and France in the eighteen-thirties to describe certain schools of social doctrine which were then exerting a widespread influence in both countries. In France, the followers of Fourier were urging that human happiness could best be promoted if men were to live together in ideal communities, called Phalansteries, pooling their labours in the common service; while the followers of Saint Simon were insisting that the victories of science and the paramount importance of the industrial arts called for a shift of power from the old governing classes to the 'industrials'—those who held the mastery of the new techniques of production—and that science, given power, would be able speedily to make an end of poverty and war and to rebuild the life of the peoples on soundly scientific principles of social and economic organisation. Meanwhile, in Great Britain, the followers of Robert Owen were advocating the establishment of Villages of Co-operation, in certain respects resembling Fourier's Phalansteries, but resting in other respects on widely different ideal foundations. The word 'Socialists' was applied at this time mainly to the Fourierists and Owenites, from whom it was extended to the Saint Simonians and to other schools of thought which were calling for a change in the entire basis of the social system.

The Utopian Socialists

An outstanding difference between Fourier and Owen was that, whereas Owen based his social ideas on the achievements of the Industrial Revolution, which he believed to have put the means of conquering poverty and ending exploitation into men's hands, Fourier thought hardly at all in terms of machinery, and based his Utopia on handicraft and the intensive cultivation of the land. He believed that men needed good food and plenty of it, but not much else that had a high cost in labour. The houses, the furniture, the simple clothing, and the other requisites of living in his Phalansteries he thought could be provided with comparatively little effort, mainly by handicraft; and he believed that most of the labour-time of the people could be devoted to

the production and preparation of food, and that the performance of this work, rightly organised mainly as horticulture, could be made a pleasure instead of a burden, and could leave men with ample leisure for every sort of simple recreation and enjoyment. Fourier himself loved good, well-cooked food, and wanted everyone to be able to enjoy it. He believed that the irksomeness of labour arose mainly from men being kept for long hours day after day to a single specialised task, and urged that, instead, every man should have many different occupations and should work at none continuously for more than a short spell. He laid great stress on free choice, as well as on frequent change, of occupation, and believed that, under the conditions he proposed, there would soon be no need for any compulsion to labour. He did not, however, advocate communism of goods in any full sense. He believed that work, including management, should be paid for, at varying rates according to skill and responsibility; and he also advocated setting aside a part of the product of industry to pay a dividend to the owners of capital who joined his Phalansteries, but on a falling scale, so that the poor man would receive for each share a much larger dividend than the rich. This, it will be seen, was in effect equivalent to a highly progressive tax on unearned incomes.

Owen's Villages of Co-operation were based on a somewhat similar plan, except that Owen, himself a great master cotton-spinner who had espoused the cause of the workers, thought of his Communities as specialising, some in intensive agriculture and some in the various branches of industrial production, and as exchanging their surpluses one with another both within and across national frontiers, which he believed the new social system would speedily render obsolete. Owen also recognised the claim of capital, but in the form of fixed interest instead of dividends; and he believed that the capitalist class would die out of itself under his system, voluntarily renouncing its claims when it had experienced the advantages, and imbibed the fraternal spirit, of the new order.

Saint Simon, the other chief progenitor of modern Socialism, made no plans for ideal communities. He wished men, not to found the new order by cutting themselves apart from the old, but to capture and transform the old society by changing the character of its government and displacing political by economic rule. Saint Simon recognised the primacy of economic and scientific forces in shaping the course of social evolution. He was on the side of the people; but his doctrines could be reinterpreted as leading to a kind of technocracy, with scientifically-minded

business men replacing kings and nobles and gentlemen as a new governing class. He tended to think of the 'industrial' class as a single entity, opposed to the old aristocracy based on land: he did not think in terms of class-conflict between capitalists and workers. Nor, for that matter, did Fourier; and Owen, who on account of the more advanced stage reached by British capitalism, saw the possibility more clearly, also repudiated such conflict and proclaimed a 'New Moral World' which enlightened men of all classes could join in bringing to birth.

Babeuf and the Forerunners of Modern Socialism

The doctrine of class-struggle, except in the form of a struggle between aristocrats and 'industrialists,' was associated at this time not with any of the schools known as 'Socialist,' but rather with that of Babeuf, whose *Conspiration des Egaux* (Conspiracy of the Equals, i.e. advocates of social equality) was the last manifestation of the revolutionary spirit in France before Napoleon's conquest of power. The followers of Babeuf preached a doctrine much closer to Communism than any of the Socialist schools; but they, like the Fourierists, belong essentially to a stage of thought prior to the Industrial Revolution and to the development of a capitalism based on the power-driven machine. They envisaged an equalitarian society mainly of peasants and handicraftsmen: the new thing about them was that they set out to achieve this society by means of organised social revolution and the dictatorship of the proletariat, by which they meant the propertyless classes.

It would, of course, be possible to trace the evolution of Socialist ideas, in essence though not in name, much further back than the French Revolution of 1789 or the British Industrial Revolution which was broadly contemporary with it. Communist ideas were present in More's *Utopia* and found a much more definite expression in the writings of Gerrard Winstanley and in the Digger movement during the Civil Wars; and in France there were Utopian Socialist writers, such as Mably and Morelly, before the Revolution. But I am not now writing a history of Socialism; I am only giving an outline of what is necessary to the understanding of its development in the world of to-day.[1] For this purpose, the Industrial Revolution forms the natural starting-point in Great Britain and the Revolution of 1789 in France; for, though France was far behind Great Britain in the development of steam-power, the ferment of ideas set on foot by the French

[1] For a fuller, but still brief, account see the article "Socialism," which I have written for the new edition of the *Encyclopædia Britannica.*

Revolution mingled with the economic factors at work in Great Britain to lay the foundations for a Socialist movement based mainly on the working classes.

Babeuf, then, and his followers, from whom descended the school of Auguste Blanqui, supplied the ideas of social revolution, of class-struggle between proletarians and property-owners, of proletarian dictatorship, and of social equality as the aim. Saint Simon, by his insistence on the primary importance of economic and technological forces, supplied the germ of the doctrine known as the 'materialist conception of history,' which Marx and Engels later developed with the aid of the Hegelian dialectical philosophy. Fourier supplied the idea of so organising work as to make it a pleasure instead of a burden, and was the pioneer in formulating a psychology of the work-process and in seeking to find new incentives in substitution for those of fear and want. And, finally, Owen was the first to seize clearly on the idea that the Industrial Revolution had made an end of the need for men to struggle one with another for the means of living and had thus rendered competition unnecessary as the basis of the economic order, and made the way open for co-operation instead. Owen was also the first to proclaim what was in effect the modern doctrine of 'full employment,' and to see that socialised control of the means of production was the way of ensuring their full use for the common benefit.

Paine, Godwin, and the Ricardians

To these four streams of thought that went to the making of Socialism must be added three others. Tom Paine, having made himself, in his *Rights of Man*, the champion of the principles of the French Revolution and the outstanding advocate of complete political democracy based on universal suffrage and representative government, went on in the second part of his book, published a year later, to outline a far-reaching plan of social reform in which he anticipated many of the features of modern progressive legislation—including, among many other proposals, heavy taxation of large incomes for the financing of old age pensions and other social services. William Godwin, in his *Political Justice*, also called forth by the revolution in France, made himself the champion of the belief in human perfectibility, based on education and on the development of the reasoning faculties of the common people; while, by his faith in reason and in voluntary action inspired by it, he was led to foretell the disappearance of governmental coercion and to become the forerunner of modern Anarchism. Finally, the publication of the

writings of Ricardo, in which the economics of the new industrial capitalism first found their full expression, provoked, in conjunction with the plain facts of the developing class-struggle between capitalists and labourers in Great Britain, a number of answers in which Ricardo's doctrines were transmuted into an anti-capitalist form and were used to demonstrate the exploitation of labour by the owners of capital and the inevitability of class-conflict under the capitalist system. The foremost of these 'Ricardian Socialists,' as they have been called, were Thomas Hodgskin (*Labour Defended* and *Popular Political Economy*), in most respects a follower of Godwin, and William Thompson of Cork (*Labour Rewarded* and *Principles of the Distribution of Wealth*), a leading Owenite Socialist.

The 'Communist Manifesto'

It was the achievement of Karl Marx, aided by Friedrich Engels, to bring ideas drawn together from all these sources into a comprehensive system of Socialist doctrine. In the *Communist Manifesto*, published in the year of European revolutions, 1848, Marx and Engels appeared as the prophets of a new 'Scientific Socialism' in which was displayed the historic mission of the working class. From the Saint Simonians came the conception of the evolution of the 'powers of production' as the determining force in social affairs; but it appeared transformed, under the influence of Hegel, into a dialectical theory of revolutionary development. From the critics of Ricardo came the theory of surplus value, that is, of the exploitation of the possessors of labour-power by the owners of property in the means of production; but here too the doctrines of the 'Ricardian Socialists' were transformed into a systematic critique of capitalist society and of its institutions and processes of thought. From Babeuf and his fellow conspirators came the conception of the proletariat as a class destined to set up its dictatorship on the ruins of capitalism; but Babeuf's crude conception of the proletariat and of the revolutionary process were transformed from the notion of conspiracy by a chosen few into that of the open conspiracy of an entire class—the working class—organised in a mass movement for the overthrow of capitalist society. From Owen Marx took the ideas of 'labour-power' and of 'socially necessary labour time' as the determinant of its value; but he had no use for Owen's model communities or for his projects of 'Labour Exchanges,' in which the workers could exchange their products at their values in hours of labour and thus dispense with the capitalist market. From Fourier, indeed, and from Godwin Marx took little or nothing;

for their belief in voluntary association had no appeal for him. He thought essentially in terms of concentrated power, incarnate in the State, which he regarded as a mere "executive committee for managing the affairs of the ruling class as a whole," and therefore set out to challenge and to supersede by a new instrument made in the image of the working class, its destined successor. Nor did Marx derive much from Paine; for he had no belief in the magic of representative government and universal suffrage as means to the promotion of welfare by way of social reform. He believed not in reform but in revolution as the consummation of the class-struggle between exploiters and exploited for the possession of power.

The Materialist Conception of History

The cardinal doctrine of Marxism is the so-called 'materialist conception of history.' The history of mankind, according to Marx, is essentially a history of successive class-struggles arising out of the development of the 'powers of production'—by which he means the command which men have over nature by virtue of their knowledge of the means of shaping natural forces to serve their ends. Each stage in this development requires for the use of the 'powers of production' a certain economic structure of society, which Marx calls the 'conditions of production.' This structure involves certain relations between man and man—at one stage the relation between master and slave, at another that between lord and serf, and at yet another that between master or employer and wage-worker. It also involves the appearance of intermediate classes, such as the *bourgeoisie*, or capitalist class, which begins its career as a class intermediate between the feudal aristocracy and the unprivileged majority, and presently pushes the aristocracy out of the seats of power and occupies them itself. The State, on this showing, is at each stage of economic development simply the political superstructure which the governing class erects for the legal enforcement of its claims. Moreover, the ideas which men form about society and about themselves and their relation to the world take their colour from the class-structure; and often conflicts which seem to be about religion or ethical principles are in reality disguised forms of the struggle of classes. The well-known phrase "Religion is the opium of the people" means that one governing class after another has endeavoured to instil into the governed religious sentiments which will lead to a passive obedience to authority and to an acceptance of evils and injustices in this world on the plea that all will be set right in the life to come.

The process of history, according to Marx, is 'dialectical.' By

this he means, very broadly, that development from one stage of civilisation to another takes place, not by a smooth and gradual progress, but by way of conflict. This notion Marx derived from Hegel's 'dialectical,' or dynamic, logic, as contrasted with the static formal logic which had held sway from the days of Aristotle. According to Hegel's conception, the nature of things is not to remain static, but to change. A thing does not merely stay what it is, it turns into something different under the influences to which it is exposed. The static notion of difference, the contrast between being 'A' and not being 'A,' misconstrues reality; for 'A' is in truth always in process of becoming 'not-A.' This interaction Hegel represents as a conflict, whereby out of 'A' and its opposite is generated something different from both. On the universal plane, Hegel conceives of the process of history as a series of conflicts in the realm of ideas, and he represents this process as the struggle of the universal Idea (with a capital I) for self-realisation and the elimination of contradiction in a final synthesis embracing all reality. Each stage is expressed, not as one of the familiar syllogisms of formal logic, but as a dialectical opposition of thesis and antithesis, leading through conflict to a synthesis which becomes in its turn thesis, meets with its antithesis, and is resolved into a new and higher synthesis.

The Marxian Dialectic

Marx took over from Hegel this apparatus of the dialectic and, as he himself said, turned it upside down. In place of the self-evolution of the universal 'Idea' he put the development of human society, and in place of the successive conflicts of ideas successive contests between men, or rather between classes; for Marx's thought was dominated by the notion of social classes as somehow more real than the individuals who make them up. For him the capitalist class was more real than the single capitalist, whom he regarded as merely one of its units, and the working class than the individual 'detail-labourer,' whose work under capitalism seemed to have meaning only when it was combined with the work of others in turning out a social product embodying the contributions of many labourers. Marx saw world history as developing fundamentally through the advance of human knowledge, which was continually altering the 'powers of production' at men's command. But, whereas knowledge could advance gradually—albeit in fact it often made sudden leaps—the adaptation of the 'conditions of production,' that is of economic systems and economic and political relations between men and men, was obstructed by the resistance to change of the classes in possession

of power. For this reason, human history progressed not steadily by continual adjustments, but by sudden revolutions, when the pent-up forces of revolt within the existing order could no longer be restrained, but burst their bonds and insisted on the thorough transformation of society to a new pattern corresponding to a higher phase in the evolution of the powers of production. Each such change, he held, planted a new ruling class in authority, up to the stage at which the proletariat, having conquered the capitalists, would have no under-class left to subject to exploitation. Then, after a transitional period of proletarian dictatorship, during which the superseded governing classes would be finally liquidated, men would arrive at a classless form of society free from social antagonisms, and, to use Marx's expression, "prehistory" would end, and "history" begin.

This conception of history Marx and his followers called "materialist," in order to distinguish it sharply from Hegel's "idealist" conception, which at the time dominated European thought. The name has been a cause of much misunderstanding, though Marx himself emphasised the difference between his 'dialectical materialism' and what he called the 'crude materialism' of certain other schools. Marxism was in truth materialist only in the sense of denying the Idealism of the Hegelians, and not in that of denying the reality of mind. What he asserted was the reality of the objective world of men and things, in which mankind made its own history and was not merely the instrument of some transcendental immaterial Spirit. 'Realist' perhaps describes better than 'materialist' the essence of Marx's attitude; but the name has become too well established to be displaced.[1]

The Assumption of Progress

It will be seen that Marx's philosophy was essentially one that took progress as one of its assumptions. Like Hegel, he was unvisited by any doubt that the evolutionary process was from lower to higher forms of organisation, or, in other words, that civilisation was advancing as men's power over nature grew greater and the processes of production became more and more 'socialised' with advancing techniques. The more developed the 'powers of production,' the greater the need for co-operation among men in their use. Accordingly, complete 'socialisation,' involving common ownership and common use of the means of production by society as a whole, appeared as the consummation

[1] For a fuller discussion of this issue, see my book, *What Marx Really Meant*, Chapter III.

of the historical process, and in this final stage all exploitation of men by men was destined to disappear. There might, of course, be temporary setbacks in the course of the struggles by which humanity had to climb, and such setbacks would arise especially in the twilight of any social system, when it had expended its creative energy and was beset by the 'contradictions' which were destined ultimately to compass its defeat. But the occurrence of setbacks did not in any way alter the progressive nature of the general process: they meant only that humanity would advance not steadily but by sudden leaps forward following upon the release of new energy by the revolutionary establishment of a new social order.

Marxism thus replaced the teleology of religion by a teleological conception of humanity itself, expressing itself in human history. Contrary to a common notion of Marxism, Marx said nothing to imply that men are spurred to action only by self-interested economic motives. The 'economic man' is a creature, not of Marxism, but of classical economics, of which Marx was the foremost critic. What Marx did assert was that, whatever the motives on which men acted, what they could achieve was bound to be conditioned by the developing economic forces with which they had to deal. "Men make their own history," Marx proclaimed: it is not made for them in independence of their actions. But they can make their history only by acting in harmony with the historic forces which their own advances in the arts of production call into being. To the extent to which they fail to align themselves with these forces, they may be merely buffeted about by them; but by recognising and working with them they can shape their own destiny. What Marx took for granted was that, apart from temporary lapses, men would do this, so that social progress would be achieved by the harmonious partnership of men and nature. Marxism is one of the great optimistic philosophies that marked men's new confidence as they extended their mastery over the forces of nature. With the pessimists who denied this conception of progress Marx did not argue: he simply swept them aside.

Marxian Economics

Marx's economics were a particular aspect and amplification of his general sociology. His theory of 'surplus value' was simply a formulation, in the economic language of his time, of his general theory of class-exploitation. Private ownership of land and of large-scale implements of production, he contended, constituted under capitalism a form of monopoly which enabled the owners

to appropriate for themselves the benefits of increasing productivity. The capitalists could grow rich by buying labour-power in the market at its 'cost of production'—that is, at a wage barely sufficient to enable the ordinary labourer to live and to reproduce his kind, with somewhat higher wages to cover the costs of producing superior kinds of skill—and by reserving for themselves whatever the labourers produced in excess of what was needed for their maintenance. Marx did not deny that real wages could increase, for he recognised that the wage necessary to maintain the supply of labour was determined, not by purely physical needs, but also by the labourers' own attitudes. He defended Trade Unionism as an instrument for improving working-class conditions, and recognised the value of such agitations as those which led to the Factory Acts and limited the degree of exploitation. But he held that, though concessions of these kinds could be wrung from an advancing capitalist system still developing its latent powers, the time was approaching, if it had not already come, when capitalism would reach the limits of its expansive power and would suffer, in its decline, from increasing 'contradictions.' Under stress of these difficulties, the capitalists would resort to more and more extreme forms of monopoly and centralisation of power, and these would have the effect of flinging down into the ranks of the proletariat more and more of the small-scale capitalists, master-craftsmen, small farmers, and dealers who would be displaced by the superior efficiency of the great employers and by the intensification of the financial power. Thus would arise a starker confrontation of the two main contending classes—monopoly capital and organised labour; and capital, in face of its growing difficulties, would become more and more liable to recurrent crises and would set to work to cut down wages and to use the low-paid labour of exploited colonial peoples to undercut the workers of the more advanced countries.

Marx, a hundred years ago, undoubtedly believed the decay and overthrow of the capitalist system to be much nearer than they proved in fact to be. He also, because of this belief, expected the advent of a condition of 'increasing misery' among the workers, whereas in fact in all the advanced countries standards of living, for workers as well as capitalists, continued to improve as productivity increased, even after capitalism had turned from competition to restrictive monopoly in order to maintain its profits. In the period between the middle of the nineteenth century and the outbreak of the first World War in 1914 the opening up of virgin lands and the rapid advance of scientific techniques so increased total output as to provide a much larger

cake to divide, and to cause a notable relaxation of the class-conflicts which had marked the earlier phases of the Industrial Revolution. From the Great Depression of the later 'seventies, indeed, unemployment reappeared on a serious scale in the periodic crises which spread from one capitalist country to another; and with it Socialism, which had gone for a time into eclipse, took on a new life. But in spite of the recurrent depressions, on the whole working-class standards of living continued to advance: there was no general sign of the 'increasing misery' of the proletariat which Marx and Engels had expected, because larger and larger supplies of cheap foodstuffs were brought in from the new areas that were being opened up. This improvement of standards was indeed slowed down or even arrested in the first years of the twentieth century; but up to 1914 there had been no clear sign that capitalism had passed its zenith and had begun to decay. Only after the first World War did mass unemployment make its appearance, no longer to all seeming as a transitory phenomenon of depression periods but as a permanent feature of a system no longer able to find outlets for all it could produce and increasingly dominated by monopolists who were deliberately curtailing output in order to maintain their profits.

The Spread of Marxism

The essential doctrines of Marxism were formulated before the middle of the nineteenth century. But they were little known in Great Britain until much later, though Marx lived and worked in London as an exile from his native Germany. On the continent, after a setback following the collapse of the revolutionary movements of 1848, they spread rapidly in the 'sixties, especially after the foundation of the International Working Men's Association (the 'First International') in London in 1864. They took root especially in Germany, where, as we shall see, they came into conflict with the 'State Socialism' of Lassalle and his followers, and in France, where they did battle both with the revolutionary conspiratorial projects of the Blanquists and with the doctrines of Pierre Joseph Proudhon, which were a development of the earlier 'associationism' of Godwin and Fourier, and laid stress rather on the powers of mutual self-help latent in the working classes than on the need for a political revolution to conquer the State power. Marxists, acting for the time in alliance with the followers of Blanqui, came to the front in the ill-fated Paris Commune of 1871, in defence of which Marx wrote one of his most stirring manifestoes (*The Civil War in France*). But the defeat of the Commune destroyed for a time the power of the French Socialists; and it was

left to the Germans to develop the first large-scale Social Democratic Party, on a basis of allegiance to Marxism and of hostility to the fast-growing capitalist imperialism of the newly consolidated German *Reich*.

German Social Democracy and the State

There was, however, a passage in the early history of German Social Democracy which brought the followers of Marx into sharp conflict with their master. Up to 1875 there were two German Socialist parties, the one professing allegiance to Marx and the other to Lassalle. In 1875 it was decided to endeavour to combine these two parties into one. On most points they were in broad agreement; but the Lassallians, unlike the Marxists, had from the first appealed to the State to adopt a policy of social reform, including the support of working-class Co-operative Societies for production, and had put in the forefront of their programme the democratisation of the State itself. These objects were included in the draft of the proposed programme of the united party. Marx at once protested strongly, especially on the issue of democratic reform of the State. It was, he urged, nonsense for the working class to set out to democratise the capitalist State, which was the class-organ of its enemies. The aim of Socialists must be, not to reform the capitalist State, but to overthrow it and to put in its place a new State created by the workers themselves as the embodiment of their own class-power. The German Marxist leaders, realising that insistence on this issue would wreck the amalgamation, suppressed Marx's protest, and carried through the draft programme unchanged. Marx, by not publishing his protest, tacitly acquiesced, though he was much disturbed. Thus, what was generally regarded as the leading Marxist party in Europe departed from one of Marx's most fundamental doctrines at an early stage in its career.

The point at issue was, at bottom, not one of Socialist theory alone, but mainly one of Socialist practice in face of a changing political situation. The Reichstag of the new German *Reich* was elected by manhood suffrage, and it was an agreed matter that this presented an opportunity of which the Socialists ought to take advantage by contesting the elections. The question was whether the institution of manhood suffrage had so altered the character of the State as to make it a body which the working class could hope in due course to take over and to adapt to its own democratic purposes, or whether the existing State was so irretrievably a capitalist institution as to be incapable of being reformed in such a way as to serve as an instrument of Socialist

power. Marx took the latter view, both on principle and on the ground that the Reichstag was not the real repository of power in the State, in that it neither determined the composition of the Government nor effectively controlled it. The German *Reich*, in Marx's view, remained a 'police State' of the governing class, and the institution of a legislative chamber elected on a wide franchise had in no wise altered its essential character.

Marx's protest, being privately made, did not become at the time a subject of public debate among Socialists, and the issue he had raised was never really settled. The German Social Democratic Party was soon outlawed by Bismarck, and driven underground, and this compelled it for a time to revert to a fully Marxist policy. When, however, in 1890, the Anti-Socialist laws were repealed, and the party was again able to carry on open propaganda and conduct free electoral campaigns, it soon became apparent that, though it continued to enunciate revolutionary aims, in practice it was also a party of social reform, endeavouring to use its parliamentary position to secure legislation favourable to working-class interests. It could not, in fact, in the situation which existed in Germany, conduct itself in any other way, without forfeiting its chance of gaining widespread electoral support. Bismarck himself, influenced perhaps by Lassalle, had set out on a policy of social legislation designed to improve working-class conditions without in any way impinging on the fundamental power of the ruling classes; and a Socialist Party seeking parliamentary support had both to outbid him and to press continuously for political reforms designed further to democratise the State machine.

Russian Marxism

Such a situation had not existed anywhere in Europe at the time when Marx and Engels drafted the *Communist Manifesto*. Even in Great Britain, economically the most advanced country, voting rights had only been extended to the middle classes. A wide suffrage existed, no doubt, in the United States; but there economic conditions were not ripe for the growth of any considerable Socialist movement. The situation that was taken for granted in the *Manifesto* was one in which the State was exclusively in the hands of a relatively narrow ruling class, and protest and agitation from outside were the only means of working-class expression short of actual revolt.

This was, of course, almost precisely the situation which continued to exist in Russia—apart from the brief and half-hearted interlude of the Duma—right up to the Russian Revolution of

1917. Accordingly, Marxism pure and undiluted continued to fit Russian conditions long after it had been in practice much modified by the Social Democratic Parties of Western Europe. In the later years of the nineteenth, and in the early years of the twentieth century, Europe had come to be divided, from the standpoint of political practice, broadly into two zones, in one of which government had assumed a quasi-democratic form, with Cabinets dependent on parliamentary support and parliaments chosen on a wide franchise, while in the other autocracy still held sway and, even if there were democratically elected parliaments, Cabinets or Kings' Ministers were not fully responsible to them and freedom of political organisation and agitation existed only in scant measure, or not at all. Of course, this dichotomy was not absolute. In particular, Germany stood poised between the two systems, with the real power mostly still in the hands of the combined forces of the old aristocracy based on land and the new oligarchy of industry and commerce.

Socialism in Great Britain

In Great Britain Socialism was late in reappearing on any significant scale after its decline during the period of advancing working-class standards which began about the middle of the nineteenth century. Not till the 'eighties was there any revival, and not till the 'nineties was its impact widely felt. In 1881 H. M. Hyndman founded the Democratic Federation in an attempt to recreate Chartism on semi-Marxist foundations, and within three years the new body had become the Social Democratic Federation and had adopted a fully Marxist programme. It did this, however, as a sign of failure rather than of success; for in doing so it abandoned all immediate hope of enlisting the main body of the workers in its support. There were widespread social discontents at the time, due largely to the reappearance of unemployment on a large scale and to the failure of Trade Unionism to spread down effectively to the worse-paid workers. But in general the British workers were Radical Liberals, and not Socialists: they were seeking not revolution but reform. After the second Reform Act, passed in 1867, Liberals and Tories had for a time vied with one another in passing legislation for the improvement of working-class conditions. Trade Unionism had been fully legalised: there had been fresh Factory Acts, Mines Acts, and Merchant Shipping Acts for the protection of labour; the Education Acts had in effect provided universal elementary schooling; and a beginning had been made with housing and slum clearance and with the amendment of urban sanitation. True, this progress

had been slowed down with the onset of depression; but it was impossible to contend that the British State of the eighteen-eighties was not an instrument of which positive use could be made for the improvement of working-class conditions. In these circumstances, most of the Trade Union and Co-operative leaders had attached themselves to a left wing of the Liberal Party and had been pressing for further measures of social reform, to be enacted under a Liberal Government. Joseph Chamberlain and Charles Dilke had constituted themselves the national leaders of this advanced Radicalism within the Liberal Party; and as long as there seemed to be good prospects of success along this line of action the Socialists stood no chance of winning a mass following.

By the end of the 'eighties, however, these hopes of Radicalism had almost died away. Chamberlain himself broke with the Liberals and went over to the Tories because of his hostility to Irish Home Rule; and in face of trade depression and intensified international competition the industrial employers set their faces against further measures of social reform, on the plea that it was impracticable to afford them. The working classes began to turn against the Liberal Party, and to look elsewhere for a successor to Chamberlain as an embodiment of Radical hopes. The time was ripe for the development of a new British Socialist movement, but not for one based on the fundamentally revolutionary doctrines of Karl Marx.

Fabian Socialism

At this point the Fabians stepped in, and provided the theoretical basis for a Socialist movement of the kind for which British working-class opinion was getting ripe. The Fabian starting point was Utilitarian Radicalism—the Radicalism which had its roots in Jeremy Bentham's advocacy of "the greatest happiness of the greatest number." Like Bentham and his successor, Mill, the Fabians began by considering, not what the State was, but what it ought to be, and what ought to be done by it. They reached the conclusion that the further development of social reform, on the scale required to amend the condition of the people, was impracticable without a change in the structural basis of production—or, in other words, that in order to end poverty and thus promote the greatest happiness of the greatest number it had become necessary for the community to take over the ownership of industry and to conduct it for use and not for profit. Only so could the highest continuous production be assured, unemployment be put an end to, and the distribution of incomes be effectively controlled. The Fabians thus advocated

Socialism, not as the logical outcome of an historical process of class-struggles, but as a practical need of the time, on the essentially ethical ground that in no other way could the happiness of the common people be secured.

This practically-minded, ethical version of the Socialist gospel made rapid headway where Marxism had failed to appeal. One reason for this was that the British working class was for the most part strongly religious, and attached to the broadly democratic traditions of the Dissenting chapels. It was alienated by the materialist, anti-theological elements of the Marxist philosophy, but was quite ready to receive many of the Socialist doctrines dressed in ethical guise. Marx and Engels, emphasising the 'scientific' character of their Socialism, had done their utmost to banish all overt ethical appeals. They had appealed to the working classes to realise their power, and their historic mission: not to the spirit of philanthropy and charity towards the poor and oppressed. They had, moreover—to say nothing of the fact that Marx was a Jew by race, but not by religion—been confronted with essentially undemocratic churches all over the continent. The self-governing congregations of British Nonconformity, with their lay preachers and their entire dependence on the voluntary offerings of the members, were quite different from the religious institutions of which they had experience. The influence of Nonconformity waned later, and its democracy became much impaired, but both elements in it were still strong in the closing decades of the nineteenth century.

The Rise of the British Labour Party

Fabian Socialism, reinterpreted by Keir Hardie and the other young working-class leaders who in 1893 founded the Independent Labour Party, became the theoretical basis of British Socialism, which grew up not as a Marxist revolutionary movement, but as an attempt to advance towards Socialism by the amplification of the conceptions of social reform, so as to extend them in the direction of structural changes in the economic order. It followed from this approach that the purpose of the British Socialists was to capture the State and to transform it into an agent of welfare, and not to overthrow it; for the process of transformation was envisaged as occurring gradually, with persuasion rather than force as the instrument. Social reforms were to be pressed for by popular agitation, inside Parliament as well as in the country; and each reform achieved was to be made a stepping-stone to further reforms, which would necessitate structural changes in the social and economic foundations of society.

Socialisation of industries would be demanded, less on principle than as a matter of expediency in the interests of better service for the people; and socialisation would come piecemeal, like reform, as a stage in the continuous process of conversion of the main body of the people to Socialist ideas.

This 'gradualist' Socialism was to pass through many vicissitudes in the country of its origin before, in 1945, it won at last a parliamentary majority and therewith a chance of showing what it could achieve in the way of positive Socialist construction. One immediate effect of its appearance was to compel the Liberal Party to reassert itself by taking up again the Radical notions which it had let lapse in the depression. Thereby Liberalism acquired a new lease of life, and the development of the Labour Party as the instrument of gradualist Socialism was deferred. The Liberal Government of 1906 was the product of this regeneration, and for a time it looked as if the revival might last. But the first World War made an end of Liberalism as a constructive political force. The economic situation of the years after 1918 called for more drastic structural changes in the conduct of industry than the Liberals were prepared to make; and in the field of social reform the Tories were ready to go far enough to steal the Liberal thunder. British Labour became the only possible alternative to Toryism as the basis for a parliamentary Government; but the Labour Party was still not quite strong enough to achieve this. Consequently, from 1918 to 1939, Great Britain was governed almost continuously by the Tories, with the disastrous result that none of the needed structural changes were made, and the country's economic strength was allowed notably to decline. Only the participation of Labour made possible the great recovery of 1940, which just averted defeat in the second World War; and the electorate of 1945 was correct in recording its chief gratitude not to Winston Churchill but to Labour as the architect of victory over Fascism.

The Evolution of Social Democracy in Europe

While in Great Britain, from the 'nineties, Socialism was developing slowly on the foundations laid by the neo-utilitarians of the Fabian Society and the Independent Labour Party, on the continent of Europe parties continued to profess allegiance to the Marxist gospel of revolution. But in practice the Social Democratic Parties of Western Europe became steadily less revolutionary and more disposed to follow the path of reform, as their parliamentary representation increased and as the openings for reform improved with a return of capitalism to a more prosperous

phase. Once again capitalism seemed to have surmounted the difficulties which had been besetting it. There were no more depressions as deep or as long as those of the 'seventies and 'eighties. Technical development was rapid in countries which were catching up with Great Britain in applying the achievements of science to the production of wealth; and for the time, with rapid colonial expansion and the opening up of backward countries, the market was swelling fast enough to keep pace with the increase of output. There was a larger cake to be shared, in the countries which were drawing abreast of Great Britain; and this made possible concessions which took the edge off working-class hunger for revolutionary change. The theoretical gulf between Marxist Social Democracy and British Labour Socialism remained very wide: the practical difference was very much narrower than it had been. It became narrowest of all between Great Britain and some of the smaller countries of Western Europe—notably the Scandinavian countries; but it also narrowed greatly in both Germany and France, despite the facts that the French made no practical progress with social reform, and that the Germans, who did, remained as far off as ever from achieving a more democratic constitution based on fully responsible parliamentary government.

In Germany especially, the change from revolutionary to reformist policies did not occur without an internal struggle in the Social Democratic Party. At the beginning of the present century the German 'Revisionists,' headed by Eduard Bernstein, demanded a theoretical revision of Marxism designed to transform it from a revolutionary into a reformist philosophy. They were crushingly defeated: German Social Democracy clung fast to its Marxist philosophy and denounced as renegades those who attempted to revise it. But this theoretical constancy, which was made possible by the lack of democratic advance in the German State structure, did not prevent the German Social Democrats from following in practice a social policy hardly distinguishable from that of the British Labour Party. Most of the West European Social Democratic Parties followed a similar course; and in the countries such as Italy and Spain, which were both economically and politically less advanced, sharp divisions appeared among the Socialists, with rival parties professing conflicting policies of revolution and reform.

Anarchist-Communism and Syndicalism

Events in France followed a rather different course. There, too, rival Socialist parties appeared for a time; but Jean Jaurès, whose

views were akin to those of the British Socialists, succeeded in recasting them on a mainly reformist basis. In France, however, as in Spain and Italy, there existed side by side with Marxism a strong Anarchist tradition of abstention from parliamentary activity and of the promotion of a social revolution which was conceived as a spontaneous uprising of the workers to overthrow the State and to set up in place of it a system of free, democratic association based on the local Communes. This type of Anarchist-Communism, which had also a strong following in Russia, succeeded in France in winning the allegiance of the Trade Unions, which accordingly stood aloof from political Socialism and endeavoured to promote working-class interests by a policy of 'direct action,' intended to culminate in a 'social general strike' that would compass the overthrow of the capitalist State. This Trade Union brand of Anarchist-Communism came to be called Revolutionary Syndicalism (*syndicat* is the French word for a local Trade Union). It found its philosophers in Fernand Pelloutier, secretary and leader of the French *Confédération Générale du Travail*, and in Georges Sorel (*Réflexions sur la Violence* and *La Décomposition du Marxisme*). A somewhat similar movement made its appearance under the name of Industrial Unionism in the United States, largely among the foreign immigrants, and spread to Canada and Australia under the auspices of the once-famous Industrial Workers of the World.

The strength of this movement in France was largely due to the failure of French Radicalism to develop along the lines of social reform, and of French Socialism to succeed in forcing it to do so. Similarly, in the United States, the absence of an effective Socialist Party forced working-class discontents into the channel of direct industrial action. But the underlying reasons were different—in France, the relative backwardness of economic development, and, in America, the rapidity of capitalist growth in a vast country with huge resources awaiting exploitation and with plenty of scope for an advancing standard of life (albeit not for a stable progress) under unmodified capitalism.

Socialism in Eastern Europe

In Eastern Europe, and above all in Czarist Russia, the situation was entirely different. There, political autocracy remained in being and the growth of capitalism, largely pioneered by foreign capital, had not created any powerful capitalist movement demanding a share in political power. The area of capitalist development was small in comparison with the area of still very

primitive agricultural economies dominated by feudal landlordism. Marxist Socialism took root among the workers in the great modern factories; but they were few. Over the rest of Eastern Europe there grew up a kind of peasant semi-Socialism, more closely akin to Anarchism. The Russian Social Revolutionary Party was its outstanding exponent. Russian Marxists themselves were divided, one section, the Mensheviks, desiring to imitate the newer model of the Social Democracies of Western Europe, while the other and larger, the Bolsheviks, held entirely to the original revolutionism of the Marxist doctrine.

The great practical issue between Bolsheviks and Mensheviks came to be that of the method by which Russia could advance to Socialism. The Mensheviks argued that a country could become ripe for Socialism only by passing through the successive stages of capitalist development, and therefore wished to encourage the growth of Russian capitalism and its acquisition of political power. They were prepared to aid a capitalist revolution, which they believed would prepare the way for a subsequent Socialist victory. The Bolsheviks, on the other hand, argued in favour of a working-class revolution, based on an alliance with the poorer peasants, and leading directly to a working-class assumption of power in the form of a revolutionary dictatorship. This achieved, they held, the stages of capitalist development could be gone through under Socialist guidance and control, in the form of a 'State Capitalism' which could be bent to serve working-class ends and could be transformed speedily under vigorous Socialist leadership into real Socialism. After the Revolution of 1917, the Bolsheviks took the name of Communists, meant to recall the *Communist Manifesto* of 1848, of which they regarded themselves as the victorious exponents.

The Revival of Communism and Its Development in the Soviet Union

'Communism' thus came again to mean, as Marx had tried to make it mean in 1848, revolutionary Socialism using the dictatorship of the proletariat as its instrument. In the interval, the word had been used chiefly either to signify a state of society in which all would produce and enjoy in common, without payment for work or for goods, or at any rate would share equally in the available supply of wealth, or else, usually in connection with the word 'Anarchist,' to refer to those who believed in a non-governmental society based on co-operating neighbourhood groups. After the Russian Revolution it came to mean the policy and programme of the Communist Party of the Soviet Union and of those groups in other countries which set out to follow its lead.

The policy of the Russian Communists was at the outset definitely internationalist. They aimed at making the Russian Revolution a starting point for proletarian revolutions all over the world, in the belief that as long as capitalism remained erect in other leading countries their own revolution could never be secure. They found themselves isolated, and were exposed, exhausted as they were by war and revolution, to counter-revolutionary crusades organised by various 'White Hopes' with encouragement and help from the victorious Allies. France helped Poland in the Soviet-Polish War of 1920, and thereafter attempted, with Great Britain, to build a *cordon sanitaire* along the Soviet's narrowed frontiers in order to "keep Bolshevism away from Western Europe." Ever since then, this fear and suspicion of the intentions of the West European Powers has exerted a deep influence on the foreign policy of the Soviet Union, whose leaders suffered from a perpetual dread that the capitalist countries might succeed in appeasing Hitler by offering him a free hand in the east. This explains the Soviet Union's attitude during the early years of Nazi supremacy. Later, the leaders of the Soviet Union made a great effort to induce the parliamentary countries to join with them in a policy of collective security against Fascist aggression. When these efforts failed, they withdrew once more into isolation, and even signed the Soviet-German Pact in the hope of gaining time to strengthen their own defences in face of the prospect of Nazi domination over the whole European continent beyond their frontiers.

Long before that, Russian international policy had undergone a comprehensive change. When, after 1918, the expected social revolutions in the more advanced countries failed to happen, and when it was found that, for the time at least, the leaders of world capitalism could not sustain a policy of active intervention against the Soviet Union, hopes began to be entertained that the Russian Revolution might survive none the less, and might be able to set about the task of building Socialism in a single country. The advocacy of world revolution as the only means of saving Russia, associated above all with the name of Trotsky, fell into discredit: Stalin's rival policy of consolidation of the revolution at home came into its own. Trotsky was flung out of office, accused of counter-revolutionary conspiracy, and later exiled. His name, once coupled with Lenin's in the history of the Revolution, became a subject for execration. The Soviet Union set out, under its successive Five Year Plans, on a course of intensive industrial development designed both to raise its standards of living in the future and to arm it fully for war. Agriculture was collectivised

both in order to ensure the food supply of the towns and in order to 'socialise' the mind of the peasant and so make him a harmonious instead of a discordant element in the working of a Socialist State.

The outstanding success of these ventures, after initial setbacks, gave the lie to those who had confidently prophesied the speedy break-up of the Soviet régime. These prophets of disaster included not only the reactionary professors of economics to whom reference has been made earlier, but also many of the Social Democrats of Western Europe. A good many Western Marxists took up from the first the curious attitude that the Socialist revolution in Russia ought not to have happened, that it was premature because there was no adequate basis for it in the economic development of the country, and that it was bound to end in anarchy and disaster. They also attacked it fiercely for its espousal of the idea of dictatorship, which, though Marx's advocacy of it could not easily be denied, was regarded by them as an unwarrantable breach of democratic principle and as involving in fact a dictatorial rule, not *by* the proletariat but *over* it, by a body of self-appointed leaders. The German Social Democratic theorist, Karl Kautsky, supposed to be the strictest of Marxists, was the foremost of these denouncers, and the conduct of the controversy sufficiently showed how far German Social Democracy had in fact travelled from the revolutionary attitude of its original inspirer.

Socialism and Communism in Great Britain

In Great Britain, where Marxism had little hold in any form, theoretical denunciation of Communism was much less vigorous than in the countries where Social Democracy was strong. But even in Great Britain widespread use was made of the hostility to 'dictatorship,' and the Russians were blamed, not indeed for making their revolution, but for failing to give to it in the hour of success a parliamentary democratic form. Just as the Russians sought in the early stages of power to foment in other countries revolutions patterned strictly after their own, so the Western Socialists could imagine no other pattern for the government of a Socialist country than the institutions of parliamentary democracy through which they were endeavouring to advance towards Socialism in the West. It seems seldom to have occurred to either body of disputants that one mode of social change might best fit one set of conditions and another another, or that there might be insuperable difficulties in the way of setting up either a complete parliamentary system in a country which had been

used to nothing but autocracy, or a complete Soviet system of dictatorship in countries which had a long tradition of open political discussion, rival parties appealing for public support, and legislation and administration under the continuous scrutiny of a Parliament including representatives of all the leading brands of opinion.

I do not mean that nobody thought in this way. On the contrary, it was, I believe, a very common attitude among the working classes of Great Britain, and very likely of other countries as well. But little was heard of such mutual tolerance and understanding in the heat of the controversy between parliamentarians and advocates of revolutionary dictatorship. The instinctive sympathy of the working classes in all countries, or in nearly all, for the Russian Revolution was strong enough to prevent the quarrel from being pressed to practical extremes. But throughout the period between the wars it disastrously divided the forces of Socialism in Europe—most disastrously of all in Germany, where the animosities of Social Democrats and Communists contributed greatly to the rise of Nazism and prevented the Weimar Republic from finding any firm basis of popular support.

The Communist International

It is impossible to acquit the Communists of the Soviet Union of a large share of the responsibility for this state of affairs. The Communist International, founded as an agent of the world revolution that failed to happen, became an instrument in the hands of the Soviet leaders for making trouble in other countries whenever trouble seemed to suit the Russians' book. The revolutionary Marxists of the Soviet Union did really regard the Social Democrats of other countries as traitors to Socialism for their failure to convert the Russian into a world revolution, and were wholly unable to understand the conditions or the elements of opinion with which, in their own countries, the Social Democratic leaders had to deal. They felt no sort of obligation to observe an attitude of comradely accommodation to Social Democratic convenience; and in practice most of the foreign Communist Parties showed themselves ready to observe any orders Moscow was impelled to give them and made themselves mere appendages of the Russian Communist Party. This attitude was quite consistent with the doctrine of 'democratic centralism' which was part of the Communist orthodoxy, as long as the Communists really believed that the development of the Russian Revolution into a world revolution was only deferred and was still the point of focus for long-run objectives. It became obsolete when the doctrine of

'Socialism in One Country' had replaced the dogma of 'World Revolution,' but it was nevertheless persisted in by the Russians on account of their suspicions, and acquiesced in by Communists outside Russia because the security of the Soviet achievement seemed to them to outweigh in importance all other considerations.

This attitude created, in the Western countries, an exceedingly difficult situation. It was difficult for any Western Socialist, unless he were an out-and-out Communist, to collaborate with the Communists of his own country, however much he might sympathise with the Communist achievement in the Soviet Union and see the importance of Socialist unity in the West. It was difficult, because the Communist 'party line' was liable at any time to be suddenly altered on orders from Moscow, irrespective of the situation in the country to which the orders were sent, and solely in accordance with the interests, real or supposed, of the Soviet Union. That is why the oft-repeated attempts between the wars to create 'United Fronts' of Socialists and Communists in the Western countries broke down as often as they were made.

Social Democracy in the Doldrums

It would, however, be no less unfair to put all the blame on the Russians than absurd to exonerate them altogether. There was some warrant for the Russian attitude in the errors and hesitations of Western Social Democracy, which showed itself remarkably unready to take advantage of its opportunities for Socialist advance. In Germany, the Social Democrats were at the outset in full control of the new Weimar Republic; but they wholly failed to use their power either for constructive advance towards Socialism or for the firm suppression of counter-revolutionary forces, which they even used as instruments for suppressing their own left wing. Later, in Great Britain, the two Labour Governments of 1924 and 1929 acquiesced in their minority status to the extent of not attempting to advance any Socialist measures; and in the crisis of 1931 it was made plain that this failure was not attributable only to lack of power, but was due also to lack of Socialist will on the part of some of the outstanding leaders. The secession of Ramsay MacDonald and Snowden from the Socialist movement appeared to verify, as plainly as the attitude of Ebert and Scheidemann in Germany, the Russian view that Social Democracy had ceased to be really Socialist.

The crisis of 1931, however, showed not only that there were real traitors in the Socialist camp but also that, in Great Britain at any rate, they had hardly any followers. MacDonald and those

who accompanied him into the 'National' Government of 1931, were leaders without an army. Their former followers stayed solidly inside the movement which the leaders had betrayed. It took time for the British Labour Party to recover from the disaster of 1931, when it lost most of its seats and nearly all its prestige. But it remained solid, and it did recover, to prove that the Russians had been at any rate partly wrong in judging it by its erstwhile leaders.

The European Socialist Outlook

Moreover, when in 1945 the mists began to clear away from the face of Europe after the years of Nazi occupation and oppression, it at once appeared that the issue of Social Democracy and Communism would have to be faced afresh. In Eastern Europe, the Communist tendency had won all along the line, and in effect there had been created a Soviet sphere of influence extending to what had been Eastern Germany, to Poland, and to the Slav countries of the South-Eastern region, with Czechoslovakia standing in a position that can best be described as one of a foot and a half in the East and half a foot in the West. But in Western Europe Communism, though it had made substantial headway everywhere, except in Scandinavia, had not ousted Social Democracy from its hold on a substantial section of the working class. Accordingly, there reappeared in the liberated countries the phenomenon of two rival Socialist Parties, disputing the leadership of the workers, but forced to act in some degree together in order to prevent the revival of the anti-socialist forces. It became a matter of the greatest urgency, albeit also of great difficulty, to promote united Socialist action in these countries, not only as a shield against reaction, but also in order to provide a basis for a constructive Socialist advance.

Great Britain, the U.S.A., and the Soviet Union

It was clear from the first that the resolution of this difficult problem would depend largely on the relations established, after the war, between the Soviet Union and the other great victorious powers, especially Great Britain and the United States. If these relations could be made such as to dispel fears and suspicions in the Soviet Union of the intentions of world capitalism towards itself, Socialist co-operation in each country would evidently become much easier, for the relaxation of international tension would bring about a situation in which there would be less reason for insisting on a common party line by the Soviet Union and the Communists in the West. If, on the other hand,

the international tension continued, and no effective basis for international co-operation could be found, the effect would necessarily be to prevent working-class unity in every country which had not passed over definitely to the Socialist side.

In this situation, Great Britain plainly occupied a key position. Nothing could prevent the United States from remaining, for some time to come, a stronghold of capitalism throwing its weight internationally on to the side of capitalist solutions of post-war problems; and if Great Britain also were under capitalist government, nothing could dispel the Russian fears of being outmanœuvred by a two-to-one combination of capitalist Great Powers. The Labour electoral victory of 1945 seemed, then, from an internationalist standpoint, a godsend. It did not constitute a two-to-one Socialist majority against the United States; for a single electoral success, no matter how far-reaching, by no means sufficed to change Great Britain from a capitalist into a Socialist country. It did, however, suffice to prevent the creation of a new World Organisation irretrievably biased on the capitalist side; and it did create a situation in which there seemed to be a real chance that successful establishment of cordial relations between the British and Soviet Governments might provide a basis for united Socialist action all over Europe and might avert the danger of a division of the European continent into two mutually exclusive spheres of influence, between which no real co-operation could be hoped for. How far these hopes have been fulfilled is a matter which is discussed elsewhere in this book.

Socialism in Practice

The purpose of this necessarily brief résumé of Socialist history has been to show how the Socialist movements of to-day are rooted in their pasts, and whence are derived the essential doctrines and ideas which unite or divide them. I have tried to show that Socialism cannot develop effectively in any country in a form unrelated to that country's history and living traditions. The Socialism of each area moulds itself to fit the shape of the national or regional tradition. Thus Soviet Communism takes over much of the centralisation and bureaucracy of Czarism, because there is at present no way of governing Russia without them; while British Socialism inherits much of the tradition of *bourgeois* Liberalism, including a degree of toleration and freedom of expression and organisation which is quite unintelligible not only to Russians, but to all peoples who have had no experience of it. With the Russian authoritarianism goes a capacity for swift and decisive action which contrasts strongly with the deliberate processes of

adjustment by which change is achieved under British conditions. With British tolerance is apt to go a lack of defined principle and dogma which seems to the Russians inexcusable muddledness of mind. The French, again, with a history widely different from either Russia's or Great Britain's, are perpetually torn between an extreme individualism, corresponding to their peasant economy set free from feudal elements and to their traditions of small-scale industry and small-town life, and a sense that only a strong central power can unify France, or can restore French greatness. The centralisation of power is, however, closely associated in the French mind with Caesarism; and there are strong psychological resistances to the conception of democratic centralism which is an essential part of Communist doctrine. Therefore, despite the evident need for unity, French opinion still displays the fissiparous tendency which has become part of the French democratic tradition.

The Outlook for Socialism in Germany

Of Germany who at this moment dares to speak with any confidence? Germany, once the region of many free cities and independent principalities, came in the nineteenth century to identify both national achievement and economic progress with centralisation, which could be achieved only under Prussian leadership and at the cost of accepting Junkerdom and militarism as its executants. German Social Democracy, equally with other elements in German life, grew up under the shadow of this authoritarian centralisation, and was led, largely by fear of the Russians, which Marx himself shared, to acquiesce in it. To-day the foundations on which this attitude rested have been destroyed; and the German people is differently placed from any other in having no national tradition on which it can attempt to built a new way of life. It has to start out, far more than in 1918, from nothing, to rebuild not merely amid the physical, but even more, amid the moral ruins of its past. It is bound, unless it breaks in pieces—or is broken—to look for guidance either to the East or to the West; and if East and West fail to reach a workable accommodation, the conflicts thus engendered will tear Germany into pieces, not merely in a geographical sense, but spiritually in every town and village. If, on the other hand, Eastern and Western Socialism can work together in the rebuilding of Europe, their collaboration will provide a basis whereon the Germans can build up a new tradition of peaceful construction and can contribute out of their genius for organisation and their zest for knowledge to the enrichment of all Europe and indeed of all the

world. For the German is not, as some would have us believe, incorrigibly an aggressor or animated by a thirst for blood. With Junkerdom fairly and finally eradicated, with the great feudal estates broken up or socialised, and with the East Prussian nest of militarism torn away, the Germans can settle down to live in comity with other peoples, if their victors show the magnanimity and wisdom to give them the chance.

CHAPTER VI

THE FASCIST THROW-BACK

THE NINETEENTH CENTURY WAS the epoch of advanced capitalist development, based on coal and steam power with the revolutions consequent on them in production and transport. It was also the epoch of developing working-class organisation, taking shape in Trade Unions, Co-operative Societies, Labour and Socialist Parties, and Socialist philosophies challenging the dominant economic and political theories of capitalist society. It looked, by the end of the century, as if capitalism, having spent the energy inherent in it, would crumble in due course, and as if the way would then be clear for Socialism to take its place.

The twentieth century saw capitalism take a fresh leap forward, on the basis of an imperialist expansion which had opened up new markets and sources of materials. For a few years, it looked as if the prophets of early capitalist decline had been wrong, and as if Socialists would have at any rate to wait a long time for the fruition of their hopes. But the first World War struck at capitalism a blow from which there was no complete recovery. Foreign investment and imperialist expansion met with a severe check; and one great country, the Soviet Union, went over to Socialism and was thereafter a perpetual thorn in the side of capitalism, because it made Socialism seem to the workers of all countries much more a practicable reality, and much less a dream. Between the wars, the difficulties of capitalism accumulated fast. The depression of the early 'thirties, coming on top of a period of painful reconstruction after the first World War, was the most serious and widespread ever known. The unemployed were numbered by millions, and even recovery seemed to offer no hope of bringing them down to a tolerable total. Social discontent grew fast, not only in Europe, but also in the United States, where the slump was felt the more by the contrast with the rapid advances previously made. Yet Socialism did not come, either in Great Britain or in Germany—much less in America, where it was not even a force to be reckoned with. Capitalism appeared to be tottering to its fall; but over most of the world the Socialists seemed unready to replace it. In Great Britain, a Labour Government, which had only a minority following,

dissolved at the first onset of the crisis, with which it had no idea how to cope. In Germany the Social Democrats, also in a minority and faced with a much more severe crisis, seemed similarly helpless, and it was left to a Catholic Chancellor—Bruening—to devise measures of partial alleviation which satisfied no one.

Fascism not a Product of the Economic Crisis

It was in this atmosphere that Nazism, under Hitler's leadership, took power in Germany. But Fascism, or Nazism, was no product of the economic crisis, though in Germany the crisis helped it into power. It had already, under Mussolini, ruled Italy for more than ten years; and the 'National Socialist' movement of which Hitler was leader had come into existence as a reaction to Germany's defeat in the first World War. The depression of 1931 cannot be used to explain Fascism, though the Fascists ably used it to serve their ends, and although it was the means, in Germany, of greatly increasing their strength and of discrediting the Socialists, their chief obstacle on the road to power. For the origins of Fascism it is necessary to look back to the thwarted ambitions, the hatreds, and the militaristic and nationalist passions which were left behind after the German collapse of 1918.

Italian Fascism

Let us begin with Italy, where Fascism first took shape as an organised movement based essentially on force. The Italians, or many of them, felt that they had been cheated of the rewards of victory, though, with every intention of sharing in them, they had abandoned their old friendship with Germany, and had joined the war on the side of the Allies. They emerged from the war, economically, in a terrible mess, and with no spoils of victory by way of compensation. Politically they were in a mess too; for there were two rival claimants to a mass following among the people, and each was strong enough to bar the other's way to power. The Socialists were strongest in the industrial north, the Catholic *Popolari* in the agricultural south; and their divisions enabled the old political groups of the middle and upper classes to retain control of the State. But these groups, though they held the State authority, were too weak to govern. Italy was falling into anarchy, and there seemed to be no force strong enough to assume command. In a series of strikes the Socialists and their trade unionist allies seized the factories in the north, only to find that the mass occupation of the factories was useless, unless they were prepared also to seize the State; for without control of more than the mere factories they could neither pay the workers, nor procure

materials, nor market their wares. But they did not feel strong enough to make a real revolution, and to seize the State, chiefly because of their weakness in the agricultural areas, and of Italy's dependence on imported supplies, especially of coal. They evacuated the factories they had occupied, and the anarchy continued.

While these events were occurring, leading Italian employers were eagerly financing Mussolini's Fascists, whom they hoped to build up into a strike-breaking army that they could use to smash the Trade Unions and the Socialist Party. Without these subsidies, Fascism might never have been able to make itself strong enough to seize the State. But that does not mean that Italian Fascism was merely a creation of the Italian capitalist class. It was not. It was a creation of Mussolini, who set out to gather round him, under the banner of militarist nationalism, every discontented element among the people—disbanded soldiers who could find no jobs, officers and gentry who hated the Socialists and realised the bankruptcy of the old reactionary parties, Socialists who had lost faith in the Socialist Party, starveling peasants, ruined professionals, fire-eating professors—in short, anyone who could be appealed to by linking the spirit of nationalism with promises, no matter how conflicting, of economic rehabilitation and the 'kick' of militant service in a 'cause.' Fascism, at this stage, had no ascertainable philosophy: all that came later, as an explanation and justification after the fact. At the outset, it raked in, with precisely the same technique of nationalist demagogy and promises of anything anybody appeared to want as Hitler used later with even greater effect, all the discontented who were not held away from it by other overmastering loyalties—and, of course, all the thugs. For the 'thugs,' a class which exists in all societies, but is usually kept in some sort of subjection by the police, are an instrument with which no type of Fascism can dispense. Fascism needs them, to do its dirtiest work.

Fascism and Capitalism in Italy

To pay this horde, pending the conquest of the State, capitalist subsidies came in very handy—as they did to Hitler later on. But it was by no means the plan of Mussolini and his collaborators merely to do the capitalists' bidding. They were quite willing to beat up Trade Union and Socialist leaders; but this was not in order to serve capitalism, but because the working-class movement barred their own road to power. If they were for capitalism against Socialism, the reason was that they saw their way to making its economic authority an instrument of their own as soon

as they had laid hold of the State. The capitalists may have thought that, as paymasters, they would be able to control Fascism; but the Fascist leaders fully intended to get the purse-strings into their own hands. And so they did, when the March on Rome had made them masters of the State.

Mussolini's power, however, did not at any point match what Hitler achieved later. The Italian Fascists were neither so confident in themselves nor one-half so thorough as the Nazis. Mussolini never thoroughly tamed his capitalists, especially the financial section of them; nor did he ever establish a reign of terror comparable with Hitler's. He murdered and tortured by tens where the Nazis killed and tormented by thousands. In retrospect, the Fascist tyranny, though it was bad enough, looks by comparison almost mild; and its administrators, its spy services, and its propaganda departments were infinitely less efficient than Hitler's. Fascism in Italy never succeeded in making itself the only visible point of focus for national thought. It did not dare handle the Church as Hitler did; and it succeeded only in driving Socialism underground—not in eradicating it, as Hitler nearly managed to do in Germany. By comparison with the Nazis, the Italian Fascists were talented amateurs at the game of brutality, and not at all talented amateurs in the sphere of organisation. Nevertheless, they achieved power and held it until Hitler's overweening ambitions brought them to ruin and revealed the weakness behind the façade of power.

The Fascist Philosophy and the Corporative State

Having won power, Mussolini felt the need of a philosophy to back it up. Then came all the nonsensical superstructure that was erected, mostly on paper, upon the foundation of brute force and nationalistic demagogy which formed the real elements of the Fascist régime. The one-party system borrowed from Russia, the idea of the totalitarian State resurrected from Hegel, the only half-consistent idea of the Corporative State blended out of Catholic Social notions of functional service in a hierarchical structure and Syndicalist notions of industrial self-government, the doctrine of *sacro egoismo* drawn from aggressive Nationalism, and that of Economic Imperialism echoing the empire-builders of all the great imperialist countries—these were the mixed ingredients out of which the Fascist philosophy was brewed into a heady compound that intoxicated many besides the Italian followers of the Duce. Therewith much strutting and prancing and running to and fro; much parade to conceal weakness and to induce half-hearted opponents to get out of the way; and much

real cruelty, of a sudden, stilettoish type, quite unlike the systematically bestial brutality of Nazism, which has caused it to be, by comparison, too lightly judged.

Such was Italian Fascism. As for the Corporative State, little of it ever existed, except as a paper theory. Industries were not run by Corporations embracing all those engaged in them after their grades and kinds: they were run by employers, or syndicates of employers, with different degrees of obedience to Fascist orders in different industries and services, with the Fascist State sometimes, and sometimes the big employers, calling the tune. The workers' part was to obey, and to accept regimentation in Fascist-controlled syndicates which were allowed no power. Naturally, the Fascists held all the well-paid and influential jobs: naturally they persecuted all, except the very powerful in industry or finance, who did not pay lip service to their creed. Naturally they did their best, in the schools and in Fascist youth organisations, to indoctrinate the young. But Mussolini and his lieutenants suffered from a grave disadvantage as compared with Hitler. They did not believe in their doctrines, which they had invented merely as a cover for their ambitions. In nationalism and imperialism they did believe, and they hated democracy and the power inherent in the working class. Beyond that, all was pretence.

German Nazism

Hitler's 'National Socialism,' known for short as 'Nazism,' borrowed much from Fascism of the Italian brand. But it was essentially different in many respects—not least in that Hitler himself, if not all his lieutenants, really believed in it. Nazism *used* pretences enough—fully as many as Italian Fascism—but there was behind its pretences a much harder core of solid, fanatical belief. This belief was, essentially, in the racial superiority of the Germans over other peoples—a superiority authorising them to trample upon others, to use others as means to their ends, and to scout all moral considerations that stood in the way of enforcing the recognition of their 'rights.' From the standpoint of this irrational belief it was all wrong that Germany should have been defeated in war, and therefore Germany had not been defeated, but betrayed. The betrayers were Socialists, democrats, Jews, Slavs from the east who had been allowed to penetrate into the Reich—but most of all Jews, whom Hitler saw everywhere, organising and inspiring conspiracies against the Nordic Race. The Versailles Treaty was shameful and wicked, not because it was nearly as repressive as the settlement that would have followed upon a German victory, but because

Germany had a natural right to dictate and not to submit to dictation. Hitler fully believed that Germans had an indefeasible right to treat other men as other men believe they have a right to treat pigs or cattle, or indeed worse, and that this right extended to Germans who failed to agree with him. It was because he firmly believed all this, and because many other Germans believed a good deal of it too, even before Hitler told them, that he was able to exert so enormous an influence. There existed a Nordic myth, a belief in the superiority of German 'culture' and in a German mission to impose its superiority on the world, and a strong strain of anti-Semitism and anti-Slavism in Germany long before Hitler fanned these feelings into flame. Moreover, the refusal to accept the reality of defeat in war, and the attempt to explain it away as betrayal, began not with Hitler, but with the chiefs of the German *Wehrmacht*, and in this respect Hitler simply accepted and echoed more loudly what they said.

Nazism and German Capitalism

In Germany, as in Italy, the capitalist classes after 1918 stood in great fear of Socialism, and many German capitalists were ready enough to subsidise any adventurer who, they thought, could aid them against the working class. But in the early stages of the Nazi movement Hitler did not look a particularly good horse to back. Even then, he did receive some capitalist help and also some from militarists such as Ludendorff and Goering; but there was nothing like a rallying of the main forces of German big business to support the Nazis in the hope of using them to beat the Socialists. That came only later, and never completely. It is badly wrong to regard the rise of Nazism as having depended, even to the same extent as the rise of Italian Fascism, on big business backing. For one thing, German militarism was a much more powerful independent force than Italian militarism, and was allied with a much more powerful aristocratic class, which for a long time looked down on the Nazi leaders as upstarts and disliked their demagogic methods. The capitalists, even if they had wished to, could not have put the Nazis into power without the acquiescence of the militarists, or at least of a considerable section of them. On the other hand, the strength of the militaristic tradition in Germany aided the growth of Nazism, and enabled it to rely less on capitalist help.

The Weimar Republic

To say this is not to suggest that economic factors were unimportant in the development of Nazism. They were of very great

importance. If Germany had been prosperous, it is a safe conjecture that Hitler would have ended his days as a shady adventurer and would never have come to power. A high proportion of his recruits were drawn into Nazism by unhappiness and frustration, and the sources of these feelings were largely economic. The Weimar Republic, born out of defeat, was always a shabby, shambling affair, without capacity to inspire loyalty or confidence. For a very few years, between 1924 and 1929, economic improvement, based largely on borrowed foreign capital, seemed to be lifting it out of its more pressing difficulties; but the economic crisis of 1931 flung it down again to the lowest level. Germany was full of thwarted people—jobless workers, whom the Republic could not afford, without a radical change of policy, to maintain at a decent standard of life; trained professional men and technicians, who could find jobs only at levels much below their expectations, and by elbowing less qualified men out of these inferior jobs; would-be officers whom the professional army could not afford to enrol, though it did enrol many as privates, in order to train them for the day of Germany's military resurgence. Economic discontent everywhere swelled and intensified national discontent, but in such a way that the economic unrest became a force making not for Socialist revolution, but for strengthening of the desire for revenge. Often, among the workers, the discontented became first Communists and then, disillusioned of their hopes of Socialism, Nazis—for Nazism could offer them better outlets for their disorganised passions, as well as greater hope of personal achievement and rescue from the sense of being of no account. Communism, to be sure, also offered something of this sense of release; but in case after case the Nazi blend of socialistic with nationalist slogans showed itself the more attractive.

Communism, Social Democracy and Nazism

Meanwhile Social Democracy, while to a great extent retaining the loyalty of the older workers, failed to attract the young. The Social Democrats had become identified in the public mind with the Versailles Treaty and with the tribulations of the Weimar Republic. They had failed to identify themselves with any constructive Socialist policy. How could they, their leaders asked, plaintively, as long as they had no majority behind them, and were compelled to act as the scapegoats of a coalition of which the sole principles were fulfilment of the Versailles obligations and trying to make the best of a bad job? It is easy to see how this came to seem a valid defence to Social Democrats entangled in

the meshes of such a situation: what it could not be was a successful appeal to the rising generation, which demanded one thing above all others—hope. Hope, in a form in which it could be entertained by youth, was just what the Social Democrats of Germany were utterly unable to offer. They had too little of it for themselves to have any over to give to the people. They did not see their way to establish Socialism, or even to provide work for the unemployed. In the long struggle to survive they had lost such faith and power of forthright action as they had ever possessed; and the necessity to govern in coalition with non-Socialist parties involved a policy which rested on evasion of the very issues that needed most to be faced. The Social Democrats took refuge in denouncing the Communists for splitting the working-class forces, and thus making a constitutional Socialist policy impracticable: the Communists retorted by denouncing the Social Democratic leaders as betrayers, and by intensifying their efforts to detach the German workers from their traditional allegiance.

The consequence was to open the door wide to Hitler. In face of the deeply-rooted fear of the Slavs it was impossible for a Communist Party taking its orders from Russia to win over the main body of the German workers. But it was also impossible for a Social Democratic Party which could hold out no hope to retain this allegiance. Those who remained faithful to Socialism were split into two bitterly warring groups; and millions deserted Socialism for 'National Socialism,' which knew well so to dress up its appeals as spuriously to twist the familiar Socialist slogans to its own ends.

Communist Errors about Nazism

The Nazis won the day, as soon as really desperate economic depression had driven home the facts of Social Democratic impotence and of Russian inability to help the German Communists to do more than stir up trouble. Besides, the German Communists were led, in an endeavour to explain their own helplessness—and Russia's—to adopt a disastrous party line. They began to argue, not merely that a conquest of power by the Nazis would not really matter, but even that it would be positively an advantage. Mistaking Nazism for a purely economic phenomenon, and classifying it as capitalism's final counter-revolutionary move against Socialism, they persuaded themselves that its achievement of power would speed up the dissolution of capitalism, by still further bringing out its inherent 'contradictions,' and would thus prepare the way for Communist revolution. On this ground, they fought the Social Democrats

harder than ever, at the cost of disastrously weakening their powers of resistance to Nazism.

Nazism not a Form of Capitalism

As we have seen, this diagnosis of Nazism as the last stage of capitalism was a most dangerous quarter-truth. Nazism was not a form of capitalism, though it may have been a social structure to which capitalism could adjust itself, and one which capitalists would greatly prefer to Socialism. It was not a form of capitalism, or at bottom an economic movement at all. It was a nationalist movement, in a nation possessing a very strong militarist tradition and sweating under a sense of national humiliation. It was helped to power both by capitalist subsidies and, much more, by economic distress arising under political conditions which had produced stalemate; but the economic factors were its superstructure and the nationalist and political conditions its basis.

The Communists could not see this, because according to their philosophy all forces *had to be* basically economic. The political factors, including that of nationalism, *had to be* part of the superstructure. That was axiomatic; but it was also, unfortunately, untrue. In Russia in 1917 the economic forces had actually been basic, and the political factors secondary; and therefore rigid, dogmatic Marxism had there fitted the facts. In Germany under the Weimar Republic it failed to fit them; but theory blinded the Communist leaders to the plain truth.

This does not mean that Marxism could not have fitted the facts. There is nothing in Marx's philosophy to deny the possibility that in a particular national situation the political forces, though secondary in relation to the general march of civilisation, may assume a local and temporary predominance. Indeed, Marx and Engels asserted that this had happened and could happen again. But the Communists of the years before Hitler's conquest of power were convinced that they were watching the death-throes of capitalism and that Socialism was its only possible successor; and they regarded Germany as the central battlefield on which the next phase of the struggle was to be fought out. They were able to demonstrate to their own satisfaction (and I think with truth) that Fascism, or Nazism, would find itself in the long run impotent to overcome the contradictions of capitalist society, and could therefore offer no stable foundations for a new social order. But, having demonstrated this, they fell into the dangerous delusion that Fascism and Nazism did not really matter, and could be ignored, and that the most important task was to discredit the Social Democrats in the hope that, when this

was done, the workers would transfer their allegiance solidly to the Communist Party.

Anti-Fascist Unity

Of course, for a long time past, Communists have been busily forgetting that this was what they ever said. When they were forced to recognise Hitler for the world-menace that he was, they changed their tone and appealed vigorously for a united Anti-Fascist Front—only to meet with rebuffs that were not the less indefensible for being easily intelligible in the light of what had gone before. It was not in human nature for Socialists who had been reviled for years as "social traitors" to be ready at the first asking to hold out the hand of friendship, especially as they could feel no assurance that there might not be before long another change of front. I was among those who wanted the 'United Front' because I regarded unity against Fascism as the pre-eminent need; but I could understand the reluctance of Labour and Social Democratic leaders who had endured much worse vilification than I. The point I felt they were missing—apart of course from the main point, which was the need to defeat Fascism quickly, before it had become too strong—was that the young men and women who were growing up did not know about this vilification at first hand, and were unmoved by it because they had not experienced it: so that appeals to it as an argument against unity cut no ice with the young.

Could Fascism have become the Basis of a New World Order?

The essential question, of course, was how great a menace Fascism really was. To me, it seemed quite possible that Fascism could conquer the world, or a great part of it, and establish a system which, if not stable, might yet endure for quite a considerable time. Such a system, if it had come to being—as it all but did—would have rested on a new form of imperialist exploitation by military power, applied not only to backward peoples but to economically advanced peoples as well. It would have meant the adaptation of the economies of the conquered peoples to serve the interests of the conquerors, by stimulating such forms of agricultural or industrial development in each country as would serve the conquerors' ends, and by repressing others. It would have made the Germans in fact the economic as well as the political *herrenvolk*, with the rest of the world grouped round them with varying status, from that of satellite allies to that of helots driven to slave-labour by their German masters.

Could such a system have lasted? Politically, the answer would

have depended on the relative efficiency of the underground resistance movements which its establishment would have provoked and of the forces of repression at the disposal of the *herrenvolk*. I could not see how, in such a situation, the forces of repression could fail to be the stronger, under the technological conditions of the present day, for as long as the *herrenvolk* remained united among themselves. It was a difficult enough task to keep going effective resistance movements under German occupation while there was the hope that the tide of war would turn again the Germans to give the resisters heart. It would have become impossible if the war had ended, as it might have done, in a German victory, leaving no rallying-point outside for the underground forces. Politically, then, a Nazified world seemed to me quite possible, and quite capable of enduring for a considerable time—given unity among the *herrenvolk* themselves.

The believers in an early collapse of Nazism, even if it were victorious in war, rested their faith for the most part on its supposed inability to overcome the "contradictions of capitalism." What of that side of the argument? The fundamental contradiction of capitalism is that it finds itself unable to make full and continuous use of the instruments of production, because it cannot do this at a profit. But the Nazis, as we have seen, though they preserved the forms of capitalism, ceased to leave it to the capitalists to decide how much, or what, to produce. They practically got rid of unemployment, because the Nazi State itself provided an inexhaustible market for armaments, and the limited consuming power of the German people was therefore no obstacle to the expansion of output, at such controlled profits as the Nazi Government chose to allow. The employers were not done away with; but they became in effect the State's agents in carrying out the State's economic plan.

Yes, say the objectors. That is all very well as long as the Nazi State is arming for war. But what was to happen when it had conquered the world, and was left with no further wars to wage, and a vast power to levy tribute in goods on its subject peoples? The question implies that the Nazi State could have been expected to collapse under these conditions, because it would not need so many armaments (though it would still need quite a lot) and because the tribute drawn in from abroad would compete with the products of home industry in the limited market, so as to cause a 'capitalist crisis.' But why should the home market be limited? Why should not the German people have lived like fighting cocks on the tribute of their subjects, and have ceased, more than they pleased, to soil their hands with labour? Why should they not

have become a warrior caste, like the Spartans of old, living on the labour of their helots? It may be objected that this implies a high standard of living for the whole German people (except of course those still surviving in concentration camps), whereas in fact Nazism kept down the standard of living, even for the bulk of the *herrenvolk*. But the Nazis did this, not because it was any part of their policy to keep the German people poor, but because they could not afford to give it a higher standard and still get all the armaments they wanted for their projects of world dominion. They wanted "guns before butter," but they wanted the butter too, when they had used the guns to make a subject world produce it for them.

There was no fundamental economic reason why, if Nazism had been able to conquer the world, it should not have settled down to exploit its domain without bringing about any internal crisis. To that extent it had abolished capitalism—I mean to the extent of no longer allowing capitalism to determine the volume of production or capitalist production to regulate the distribution of incomes. It was sheer delusion to suppose that the "contradictions of capitalism" could be relied on to bring collapse upon a régime which had in fact denied the first capitalist premise—that pursuit of maximum profit should be the determining factor in the use of productive resources.

If the Nazis had won?

If Nazism had conquered the world, and had been able by military force to prevent or crush revolt among its subject peoples, only one thing could have brought it down—disunity in its own ranks. I am far from asserting that such disunity would not have developed; but there would have been no reason for it to develop in the form of a class-struggle such as Marxists might have foreseen. There would have been no basis for such a struggle; for the whole German people would have been growing fat together on tribute from a conquered world, and would have been in the position of a collective exploiter of other peoples. If revolt had developed under such conditions, it would have been a revolt not of economic misery but of political revulsion against the dominant Nazi caste. Its springs of action would have been the desire for democracy or the dislike of Nazi rule, even if such rule served the German people's material interests. Or perhaps the ruling caste would have fallen out among themselves and in an internecine struggle for power would have torn the régime to pieces and destroyed its ability to keep its subject peoples in obedience to its rule. These are 'might have beens': what appears certain is that,

had the Nazi plans come to fruition, there would have been left no basis for an economic class war between exploiters and exploited in Germany itself. The Nazi rulers would have been forced to enrich the German lower classes; for their tribute would have been of no use for any other purpose. Nor was there anything either in their philosophy or in their economic arrangements to prevent them from doing this. Pretorian guards need feeding well; and all the *herrenvolk* would have been the pretorian guard of the Nazi world empire.

Japanese Fascism

Perhaps the truth of what I have been saying will be accepted more easily, because it will hit up against less deeply rooted presuppositions, if I restate it more briefly with Japan, instead of Germany, as example. The Japanese so-called 'Co-prosperity Sphere' was an attempt to establish in Asia an economic empire of almost precisely the same kind as the Nazis were seeking to set up with Europe as its basis, though not its limit. The Japanese were aiming at extending over a large part of the Far East, including China, the Dutch and French Indies, Malaya, Siam and Burma, and no doubt, if they could, India and Australia as well, the system of economic exploitation which they were already applying in Manchuria with great effect. The Japanese people were poor, not because the Japanese militarists wanted them to be poor, but because the resources of Japan itself did not suffice to make them anything else. The Japanese capitalists were, no doubt, given every encouragement to exploit the poor as much as was necessary in order to secure the trade which the militarists needed in order to make their country strong for aggressive war. But it would be most misleading to describe Japan as a capitalist country organised in the interests of the capitalist class. It was essentially a militarist-imperialist country, using the capitalists as its agents and allowing them such power as their agency called for, but ready at any time to bring them up sharply if they ventured to prefer their own interests to those of the military caste which identified its attitude with the well-being of the nation.

There was, as far as I can see, no inherent instability about Japan's economic position that was likely to bring the Japanese empire tottering to its fall: nor do I see why there should have been if the Japanese war-lords had realised their ambitions of territorial expansion in Asia. Japanese dreams of conquest were entirely realistic, and might have succeeded, just as Hitler might have succeeded in conquering Europe; and of neither situation

can a satisfactory analysis be made in terms of the powers of production, the contradictions of capitalism, and the class-struggle—not because the factors with which these concepts are concerned were absent, but because of the presence of other factors, which can by no means be resolved into them.

Economic and Political Factors in Social Development

It is, I think, necessary to admit, in the light of the conditions studied in this chapter, that, however fully the evolution of the powers of production may settle the general course of historical development, it is highly dangerous to frame practical policies in concrete situations without taking into account other factors that may be of much greater immediate, short-run influence. Mark Twain, it will be remembered, placed himself and his luggage on a glacier, which was travelling down into the valley, but found that means of transport slow, however sure it might be in the end. Practical action in human affairs calls for adjustment to short-run, local factors, as well as to cosmic processes of evolution. In the long-run, both Nazism and Japanese imperialism would doubtless have broken down, as did the Roman Empire. But the run might have been very long indeed, if the war had ended in a general Fascist victory.

What was Fascism and why did it arise?

If Fascism was not merely "the last stage of capitalism," what was it? Certainly, despite its name in German, it was not Socialism, and was not at all what nineteenth-century prophets, of any leading school of thought, expected to succeed capitalism. For the thought of the nineteenth century was permeated very thoroughly by the belief in 'progress.' One group of thinkers might see progress in the perfection and universalisation of 'free enterprise,' another in the institution of a planned Socialist system, and yet another in some form of stateless voluntarism of an Anarchist-Communist shape. But all these schools agreed in believing that the next stage in man's history would be in some sense higher and more democratic than those which had gone before. There were of course, as in all epochs, the pessimists, who lauded the good old times and proclaimed that the human race was going to the devil faster than ever since steam-power had enabled it to annihilate time. But there was almost nobody who proclaimed that going to the devil was the best thing that humanity could possibly do, that the devil was the deuce of a good fellow and a Nordic hero, and that a return to savagery was the best way of advancing civilisation. There were in those days

anti-democratic *pessimists*, but not anti-democratic *optimists*—except a few followers of Nietzsche, who had seized upon and perverted a single element in their master's teaching. It was left to the twentieth century, having lost its faith in the inevitability of progress, to substitute for it a faith in regression to the values of the pre-primitive under-mind.

Why did this startling upset of values occur? Nineteenth-century man had rested his optimism largely on the achievements of science. But in the twentieth century the pace of scientific development had in no wise slowed down. If anything, it had increased; and yet it no longer stirred in men the old, confident anticipations. This was not because, in the first World War, it appeared that the applications of science to the arts of destruction were far ahead of its uses for the promotion of human well-being. The rot had set in well before 1914. It had set in because, in the first place, the more the scientists mastered the art of manipulating nature, the more incomprehensible nature itself became, and, in the second place, because the more applied science developed, the more glaring became the contrast between man's technical powers and his imbecility in the fields of social and political organisation.

But what is this, I shall be asked, but to bring in the "contradictions of capitalism" all over again? It is, indeed, just that; but may I remind the reader that I have said no word to depreciate the importance of these "contradictions." What I have said is simply that the recognition of their cosmic importance is an inadequate guide to action in the concrete situations with which men are called upon to deal. The crumbling of space, time and matter in the heads of the physicists would not have engendered a mood of pessimism if science, in its practical achievements, had not been meeting with social frustration at every turn. The pessimism was not produced by finding that the riddle of the universe was by no means solved, but on the contrary grew more enigmatic as more and more answers were found to particular riddles which had previously seemed to be the things that rendered the main riddle obscure. It was produced by the sense of contradiction between man's achievements in the realm of technology and his lack of achievement in the arts of social life.

The Effects of Psychological Advance

Or rather, it was produced by that contradiction, and encouraged by man's progress in one practical branch of science, the knowledge of himself. There can be no disputing the pessimist-making effects of the advance of psychology, especially in its

Freudian development. For, at the first onset, the Freudian revolution seemed to knock away the foundation of the belief in reason. Thitherto, the optimists had based their confidence on a belief that men were in process of becoming more rational as well as more knowledgeable, and that education was preparing the way, however slowly, for the universal rule of reason. But now it appeared that there was an element in man's nature, indestructible and always present, to which the laws of reason simply did not apply, and to which morality, which involves reasoning about right and wrong, was entirely without relevance. Pareto, in his Sociology, drew the extreme conclusion that men must be ruled for ever, not by the power of reason, but by certain irrational *idées fixes*, which could be variously combined but never modified or ousted from their place of final authority. Many other thinkers were influenced in less extreme ways to lose faith in reason, and therefore in democracy, the defence of which had always been upheld by a belief in a tendency of men to behave reasonably within the limits of their knowledge and experience. If no such tendency existed, or if other tendencies were of superior strength in men, what basis for optimism was left?

Nazism, Fascism and all the creeds allied to them seized gleefully on the practical opportunities which the new psychology, in conjunction with the greatly improved means of communication and propaganda, offered to irrationalist demagogy. For their upholders the new psychological knowledge was no source of pessimism, but a magnificent opportunity. The democrats, on the other hand, continuing to believe that men ought to be ruled by reason, were disoriented by the discovery that there was a broad terrain of the human mind, highly accessible to propagandist appeals, but wholly inaccessible to reasoned argument. They did not sufficiently appreciate the fact that the new psychologists, accustomed to deal mainly with abnormal behaviour and abnormal personalities, were prone to exaggerate, not indeed the extent of the irrational in man, but its influence on men's conduct under normal conditions of living. It was undeniable that the underman was present, in all of us, and that he was by our conscious standards a dreadfully immoral person, being wholly amoral, and therefore unresponsive to moral appeals. But it was equally undeniable that in most people in most situations this terrible underman was entirely unable to influence social conduct, and was, for all practical purposes, non-existent in *esse*, though not in *posse*. He, or it, was liable to be evoked when we suffered from certain diseases of the mind, or when we were unduly scared or found ourselves in situations which our experience

as conscious beings gave us no help in handling. He, or it, was therefore a potential danger; but the danger was the less when we knew about it, and was certainly not of such a nature as to justify pessimistic conclusions about the practicability of strengthening men's capacity for rational conduct through better education and greater security of living. Nor was it of such a nature as to justify scepticism about democracy; for it left the case for and against democracy, in all respects save one, precisely where it had stood before. The one exception was that the new psychological knowledge had put new weapons into the hands of unscrupulous persons, who could use it without moral inhibitions, and that accordingly it became necessary for the democrats to devise new prophylactics, and to adapt, not without inhibitions, their own propagandist techniques.

The further discussion of the vital issues raised in the preceding paragraphs must be deferred. It belongs with the consideration of twentieth-century democracy which will be attempted in a later part of this book. It has been necessary to carry the argument thus far only because as much of it as I have set out here arose unavoidably out of the discussion of the nature of Fascism; for Fascism's march to power was greatly aided by its prompt and uninhibited exploitation of modern psychological knowledge, whereas the fortunes of democracy have been adversely affected by the reluctance of democrats to admit the practical implications of discoveries about man which call for restatement, though not for renunciation, of many of the articles of the nineteenth-century democratic gospel.

CHAPTER VII

PUBLIC OR PRIVATE ENTERPRISE?

IN EVERY COUNTRY OF this post-war world, when frontiers have been settled or where they are not in dispute, men will have to settle down to arrange their living together in accordance with some defined pattern of social organisation. They will be living, over most of the earth's surface, in national States, even if these States are linked together internationally more closely than before the war; for it is already evident that the national State has emerged from the carnage with undiminished vitality, and that, for good or ill, the life of the peoples is to be rebuilt as far as it can be, in such a world as ours, on a basis of national sovereignty. Here and there, neighbouring countries may join together in federations, and everywhere the leadership of the few big States seems certain to be more strongly affirmed than it was. In certain respects, where issues of war and peace are at stake and perhaps in some other fields of action, there will be restrictions on the absoluteness of national 'sovereignty,' recognised and incorporated in formal international instruments and not merely *de facto*. But countries will continue to be administered by national Governments, to have their separate codes of law and methods of law-making, to preserve civil order within their own frontiers, and to shape their own fortunes within such general framework as the new structure of the United Nations may provide. Those who prophesied that the second World War would see the end of national 'sovereignty' have been shown to be wrong: the thing has survived, though its limits and to some extent its nature may have been changed.

In the foregoing paragraphs, the word 'national' has been used in a wide sense, to include States, such as the Soviet Union, Belgium and Switzerland, which are made up of a number of national groups. My point is not that the frontiers of the new world are being drawn rigidly on the principle of 'one nation, one State,' but simply that the post-war world continues to be divided into separate territories, each with its own separate Government, and that in most cases the inhabitants of these territories think of themselves as members of the State in whose area they live and expect to have to shape within it, in common with

their fellow inhabitants, a way of living different in some degree from the ways of their neighbours in other States. The nation State, in this sense, may have no common racial foundation, but it has usually within it a community either of tradition or of race, extending to enough of its inhabitants to serve as a basis for its common institutions.

The Institutional Foundations of Post-war Societies

Within each of these States, a decision has to be reached somehow about the nature of the institutions under which the people are to live. In normal times, of course, societies carry on with the institutions they have, modifying them here or there, but without changing the general framework. In times of abnormal disturbance, whether the causes be internal or external, or both, the very foundations of the national life come into question, and the soundness of the structural framework built upon them is no longer taken for granted. Two contending forces then come into play. One, the conservative, stresses the danger of altering the traditional framework for fear of the whole society falling to pieces, while another, the radical, looks for surer foundations on which an essentially new structure can be reared. Of course the radical does not propose to destroy everything, or the conservative to keep everything unchanged. Radicalism and conservatism are alike matters of degree. The radical may consider some of the foundations and some part of the superstructure to be sound: the conservative may agree that some parts of the superstructure need rebuilding. There may be also a division in the conservative ranks, between the conservatives proper, who are prepared to accept past innovations while doing their best to limit new ones, and the reactionaries, who wish to pull down the newer parts of the existing superstructure in order to get back to what they regard as the sound underlying traditions of the nation's past.

Institutions as Symbols

Certain parts of the structure of institutions often play a symbolic role in these conflicts. Wherever monarchy exists as a real focus of anti-democratic power, the radicals will wish to abolish it, or at the very least to reduce it to impotence, whereas the conservatives, as well as the reactionaries, will defend it as the symbol of the national tradition. The Church, where it plays a similar role, will become in the same way a symbolic object of attack and defence. So may other institutions—in this country, for example, the House of Lords, or even the Bank of England. On the other side, there was a clearly symbolic element in the

fervour with which the British Conservatives resisted modification of the Trade Union Act of 1927, or, in France, in the various attitudes taken up on the question of the continued validity of the "Constitution of 1875." American conservatism makes a symbol of "free, capitalist enterprise."

When the life of a country has been shaken to the very foundations, and rebuilding is in question, the conservative argument is that there is no way of secure re-establishment except on the old foundations and by replacing the traditional institutions as nearly as possible as they were. Monarchy, if it existed, must be kept as the symbol of national unity: the class structure must be restored intact: the legislature and government must retain their traditional forms: the church must not be disturbed in its privileges: the bases of landed property and economic relations in industry must remain as before. The radical, on the other hand, will want to lay hands on as many of these institutions as stand seriously in the way of his conception of a new social order, and will stress the proven inadequacy or anti-social character of the old structure and the need for building on a new plan. He will not, however, as a rule want to make a complete sweep of the old, because he will recognise the dangers of alienating support by pressing his radicalism too far. How far he will wish to go in practice will depend mainly on two factors—the extent to which the old institutions have actually disintegrated, and the degree to which his opponents are prepared for accommodation. The conservative, for his part—though not the sheer reactionary—will be similarly moved. He will take into account the practical possibility of rebuilding the old structure so as to make it work, and will be prepared for some innovation, especially where his opponents show a preparedness to compromise.

External Influences

The interaction of these internal forces may be greatly complicated by the external relations of the States concerned. Thus, all over Eastern Europe, the radical elements are being strongly impelled to insist on a basis of reconstruction that will make it easier for their countries to live in harmony with the Soviet Union, whereas a symbolic hatred of the Soviet Union makes it harder for the conservative forces to adapt themselves to changes which will have this effect. Great Britain, at one end of the great Eurasian land-mass, and China, at the other, both feel the conflicting tugs of the Soviet Union and the United States, with their contrasting economic and social systems. A more complicated series of tugs exists in Central and Western Europe, where the

Soviet and American influences pull different ways, but the British, since the advent of Labour to power, are a more enigmatic influence, not yet plainly defined and therefore tending to keep the conflicting internal forces in the various countries doubtfully in play, till they can tell whether a practicable alternative point of stabilisation is to be offered them.

Types of Institutions

Everywhere the struggle is necessarily being fought out mainly over institutions. The foundations of society cannot for the most part be directly attacked or defended. Defence and attack alike are concentrated on the key institutions, which are at the same time symbols of the conflicting faiths. These institutions are of a number of different kinds, but for our present purpose we can group them under three heads. First, there are *political institutions* —forms of government, monarchy or republic, parliament or soviet, representation or dictatorship on an unrepresentative basis, electoral systems, political parties and propagandist machines, local government and its relations to central government, its powers and areas, and so on. Secondly, there are *economic institutions*—land systems, public or private ownership and operation of industries and services, inheritance laws and customs, tax systems, labour conditions and their regulation, monetary policies, thrift agencies and forms of social insurance, and the like. Thirdly, there is the still more various group of *social institutions*— religious establishments and allegiances, marriage customs, schools and institutes of teaching, learning and research, academies and societies of the arts, patterns of recreation and amusement, personal freedoms and unfreedoms, whether dependent on law or on custom, and in general the thousand and one things which, apart from the established patterns of political and economic structure, differentiate each people from every other, and give to each country its recognisable pattern of national life.

Totalitarianism

The essence of totalitarianism is its insistence on State supremacy in all these fields. According to the totalitarian philosophy, nothing in the lives of the citizens must be outside the control of the State—though there are things which, because of their unimportance for the whole, or of the sheer impossibility of regulating them, even the totalitarian State may let alone—and of course other things which any actual totalitarian State may for the time leave unregulated from motives of prudence. What totalitarianism means is insistence on State regulation of the lives

of the citizens in all three spheres, and in each over as much as possible of what matters from the standpoint of the whole. Under such a system the individual has no private *rights*: such freedoms as are left to him remain as of grace, or because the State cannot see its way to remove them.

Individualist Philosophies

At the opposite extreme stands the philosophy of individualism, sometimes called 'liberalism,' though 'liberalism' has many other meanings. The aim of individualism, in most of its forms, is to limit the field of regulation as narrowly as possible, in order to leave the fullest possible scope for the individual to act as he pleases. The most extreme form of individualism is absolute Anarchism, which denies the need, not only for government in any shape, but also for formal association, even on a voluntary basis. This is a very different philosophy from Anarchist-Communism, which denies only the coercive elements in regulation, and insists strongly on the importance and effectiveness of voluntary association. Anarchist-Communism is not individualistic, as absolute Anarchism is: it belongs with the Socialist philosophies, to which we shall come later.

Individualism and the Rights of Property

Next in order to Anarchism, in the individualist group, comes the attitude which admits the necessity of government, but aims at limiting its province to the preservation of 'order.' 'Order,' in this conception, involves above all else the definition of the rights and forms of property and their enforcement. It must do this, for without it there can be no firm basis for the individual freedom which is postulated as desirable. On its radical side, this doctrine insists on the diffusion of property, so as to give every man, or at least every head of a household, a property with which he can mingle his labour and thus exercise his individuality; but most declared individualists lay no stress on this, and either assert that every man has a natural property in his own labour, which is enough to afford a basis for freedom, or that every man, having this property in his own labour, should have the chance of acquiring other property by showing proper enterprise in the use of his natural powers. This last form of the doctrine is strong especially among 'frontiersmen'—wherever the fields are many and the labourers few, or where the memory of the 'frontier' survives, as in the United States, and continues to exert a lively influence on the forms of thought.

It is not true, though it is often said, that the individualist of

this school desires to confine the State to the political, and to keep it out of the economic, sphere. The regulation of property rights is essentially an economic matter. What this type of individualist does desire is a limited police State maintained for the defence and definition of property rights, and besides for as little as possible. Moreover, he desires to hold within these narrow limits, not only State action but other forms of institutional action as well. He is usually as hostile to the binding force of customs, to any tendency towards association that in practice binds the members, and to any ecclesiastical pretensions to regulate conduct, as he is to the extension of the State's sphere of intervention. He believes in 'free enterprise,' subject to property rights, not only in economic affairs, but also in politics (the more splinter parties the better) and over the wide realm of social and personal behaviour.

Totalitarianism and Individualism Contrasted

Between these two extremes lie the various social philosophies which reject both universal subjection of the individual to the whole and the unqualified assertion of individual rights. In all these intermediate philosophies, there are limits to the operation of any single principle. Totalitarianism rests at bottom on a belief that the individual in himself does not matter, and that his happiness and well-being do not matter, save to the extent to which they are means to the well-being of the State. The State is thought of, not as all the individuals in their manifold personal and associative relations, but as an entity transcending them, and existing for its own sake. In this view of life man is made for the State, not the State for man. The individual who sacrifices himself 'for the State' is thought of as doing so really for the State, and not for his fellow-men. Man is thought of, not as man, but merely as a speck of state-stuff—unless he is one of those fortunate supermen who are somehow symbols of the State. The *Führer*, like the Emperor of Japan till only the other day, is not a man: he is State incarnate.

At the other extreme, for individualism only the individual exists. In each human body is an *ego*, and each of these separate *egos* has its own wants, ambitions, values, capacities and affections apart from every other. Not only the State, but any form of association between these *egos* (? even the relation between mother and child) is a structure designed for the more convenient furtherance of the purposes of the *egos* which belong to it. Nor is this all. Association is regarded as dangerous, because, though it can be used to further the individual's ends, associations have

a tendency to develop ends of their own, which may limit the scope of individual enterprise and may cause the individual to accept conclusions and principles of action which are not really his, or anyone's, but proceed from the corrupting influence of group activity. The State, if it is allowed at all, is merely a piece of machinery for 'keeping the ring,' in which the individuals are to fight it out among themselves according to rules which they recognise as not limiting but enlarging their freedom of self-expression and self-realisation.

Critique of Individualism

Clearly, even this 'referee State' is the thin end of a very thick wedge. If it is allowed that, in the interests of an orderly struggle for self-realisation, rules must be laid down and must extend to the regulation of property rights, how much else may not have to be admitted? The individualist often tries to make a stand by declaring that the right of property is 'natural,' and therefore a fit subject for protection by the State. This 'natural right' to property includes a man's right to property in his own person, and accordingly the State is justified in protecting his body, as well as his estate. But against what is a man's body to be protected? Only against the fists, clubs or tommy-guns of his neighbours, or also against disease and hunger and the physical effects of mental suffering or privation? And what about man's 'estate'? In order to protect the individual's property in things, the State must decide to what individual each thing belongs. If it may decide this once, may it not revise its judgment, and assign one man's property to another (e.g. redistribution of land, as in the French Revolution and in many subsequently), or even take over a man's property, when it can be shown that it can be better managed in the interest of all the individuals, or of a majority of them, by some public body? Logically the recognition of the State's role as the protector of property opens the door wide to all manner of further interventions, unless it can really be shown that property is a natural right and that the actual ownerships recognised by the State correctly reflect the decrees of a 'law of nature.'

This, of course, cannot be shown, but only assumed. The individualist either assumes it, or assumes that, even if the existing distribution of property is 'unnatural,' there is a 'natural' distribution which the State can establish, so as to confine its activities thereafter to keeping this 'natural' distribution intact. The radical individualist usually takes the latter view, but runs into the difficulty that his principle of individual enterprise is continually tending to upset the 'natural' distribution, which he has therefore,

in the teeth of individual enterprise, again and again to reinstate —to say nothing of the difficulty that, if he attempts to preserve it, say, by the regulation of inheritance, he is pushed a step further along the road of intervention and is, besides, in danger of creating conditions of extreme sub-division of property which plainly make against its effective use. The non-radical individualist is on safer ground in assuming that the existing institutions of private property correctly express the dictates of 'natural law,' and in remaining unmoved by those who question them on grounds of 'natural equity.' But he is on safer ground, not because his argument is more valid, but only because he refuses to be argued with.

The individualist is right, as against the totalitarian, in insisting on the primacy of human beings. He is right in scouting the notion that there can be a State's welfare distinct from the welfare of the men and women who make up the State, and in putting forward the freedom and well-being of the individual as an object for social pursuit. He is, however, wrong in assuming that men can best pursue their happiness and welfare, or even their effective freedom, by refusing to take counsel together about their conduct, or to lay down in common any rules of action by which they are to be guided in the pursuit of their ends. He is wrong also in assuming that all ends important to the individual can be pursued merely as individual ends, without any element of co-operation among men for a common purpose, or that the individual is in fact exclusively interested in the furtherance of his own ends, and not also in helping other people to further theirs. The contortions by which some individualists, conscious of feeling in fact a sympathy for other men's ends, try to resolve all other-regarding behaviour into self-regarding behaviour are sometimes truly laughable. I myself had once to deal with a person who felt a strong desire to give money to a 'good cause' for which I appealed to him, but felt unable to do until he had not merely convinced himself, but bludgeoned me into agreeing formally that in making the gift he was actuated entirely by consideration of the personal pleasure which the giving would afford him. The cause was so good that I had to tell a white lie; and the giver's pleasure was undeniable. What he refused to see was that, if he had given merely for the pleasure of giving, he would not have been pleased.

Men as Social Beings

The truth of the matter is that, though men and women and their happiness and well-being are the things that count, men

and women are not isolated individuals who can enjoy these blessings by themselves, or by the sole power of individual enterprise achieve the ends they value. They are by their very nature and relation to their environment social beings—members one of another; and they must work together to achieve many of their ends and must enjoy together the fruits of many of their labours. The dance of life is not merely a *pas seul*; nor can one man, however enterprising, build the City Beautiful. No doubt, given the institution of property in its capitalist form, some men can become rich enough to buy dummy-partners or to employ all the labour needed to build a city; and such triumphs of 'private enterprise' are apt to be particularly admired. But the man whose achievements take only such forms is likely, unless he is quite abnormal, to be oppressed by the horrors of his loneliness rather than to have his spirit lifted up. There are some ends which the normal man does pursue individually, so as to get a purely individual satisfaction; but no normal man's life is made up of the exclusive pursuit of such ends. Even the artist wants someone to like his creations, and to share his sense of their worth-whileness.

I have been, in the preceding paragraph, intentionally jumbling up several things together. Let us now try to sort them out. First, there are many things which can be *done* only by a number of people acting together for a common end. Common action in this sphere is consistent with individualism when the end is of such a nature that each man desires it for himself and not for the others, as may be the case in a Ratepayers' League designed to keep down the rates. It ceases to be consistent as soon as there enters in any element of desiring the end for other persons as well as for oneself, as even the members of a Ratepayers' League usually profess to do. Any intrusion, for example, of the notion of 'fairness' or fair dealing by all who are similarly situated brings in an element for which sheer individualism cannot account.

Secondly, there are many things which can be *enjoyed* only on condition that they are enjoyed by others besides oneself. A cricket match is an obvious example, and this applies to watching it as well as to playing in it. A Cup Final, a boxing-match, a play would lose much of their savour if one had the place to oneself, or were surrounded only by automata incapable of fellow-feeling.

Thirdly, there are many things which, though they can be done by individuals acting alone, can be *done much better* by co-operative action. Here the field of controversy begins; for the individualist is apt to combine with his egoistic psychology a mystical belief in the value of purely individual effort, and to see good not merely in what is achieved by it but also in the nature of the effort by

which the result is achieved. He is inclined to look down on co-operative effort, especially when the individual's part in it cannot be separately identified. In such cases, it is apt to seem to him to be nobody's effort, and therefore without value. If the value were only in the product, the merging of the individual efforts could make no difference: if it is in the effort there is a difference; for the question becomes one of 'prowess' and not of enjoyment of the product.

Individualism and Personal Prowess

The notion of 'prowess' is, indeed, much more closely related to the appeal of individualism than is often recognised. A good many people defend 'free' enterprise and object to collective action not because they believe that the *results* of 'free' enterprise will be better, but because they think it affords greater openings for the display of personality. This would be a respectable argument, if it meant greater openings for everybody, or for the great majority. Once upon a time, it may have meant this, when the means and methods of production were simpler. But to-day it means in practice something very different—the narrowing of life for the many in order to afford greater openings for the few, much less in exercising their powers upon the mastery of things than in treating other men as means to their ends. There are still, of course, graded opportunities for the display of prowess within the large organisations dominated by the supermen of industry and commerce; and there are also opportunities in small-scale enterprise, where it is able to maintain itself in face of the development of mass-production techniques. Indeed, the controllers of big business are continually trying to provide such openings in their own concerns, and defending their own position by appealing as 'fellow enterprisers' to the smaller fry. But the indispensable conditions of modern production leave little room for the display of prowess by most workers in large-scale industry; and in many fields the smaller scale 'enterprisers' are in practice allowed but little latitude, and get more kicks than ha'pence. Moreover, it is one thing to be given the chance of displaying prowess in a task which a man can accept as his own, and another to be allowed to display it only in furtherance of other men's purposes.

The Fear of Bureaucracy

Nevertheless, the 'prowess' motive counts for a great deal among those who take up an attitude hostile to public intervention in the field of economic enterprise. The fear of 'red tape' is real, and extends far beyond those who object to it not because

they dislike tape, but because they prefer to choose their own colour. There is a widespread feeling that collective action can be equated with 'bureaucracy,' and that a *bureau* is one thing when it is found in a public office and quite a different thing elsewhere. This is partly because the State bureaucrat usually appears armed with legal authority, scattering orders and regulations, whereas the private bureaucrat exercises his powers *de facto*, and not of legal right. But it is also because the private bureaucrats conduct a continual campaign of abuse against the public bureaucrats, who are for the most part not allowed to answer back. There is a real difference between bureaucracy armed with legal powers and bureaucracy backed only by economic strength; but that is not to say that the one is worse than the other, or that they are not both of them forms of bureaucracy.

Prowess in Its Good and Bad Aspects

It is, indeed, a very real question whether 'public enterprise' or 'private enterprise,' under the modern conditions of large-scale organisation, can offer the better opportunities for the exercise of 'prowess' in its desirable social forms. It will be admitted that not all exercises of prowess are desirable. The Nazis based much of their system on maximising their own followers' chances of displaying most undesirable forms of 'prowess,' such as 'prowess' in cruelty, espionage and delation, Jew-baiting, and war. There never was a régime, at any rate in a community purporting to be civilised, that offered such opportunities for self-expression in these forms. But the correlative of these opportunities was not freedom but tyranny for the greater part of the people. The question, then, that we have to ask is not which system most encourages prowess, but which most encourages prowess in socially desirable forms.

That some forms of prowess are desirable, everyone will agree. Nay, more, most people will agree that in any well-organised society the opportunities for showing prowess ought to be widely diffused and canalised as far as possible into streams of social usefulness. It would not be a good society in which most men had only to receive, and had no hand in creating. Nor would it be a good society in which, in the process of creation, most men's role was purely mechanical and afforded no opportunity of doing a job better or worse. Labour is unenviably placed when both the pace and the quality of production are determined entirely by the machine, and the quality of the machine-tender's effort can make no difference.

To this extent, it is correct to lay stress on the factor of prowess.

But why need there be any less scope for it when business is publicly run than when it is in the hands of large-scale 'private enterprise'? Clearly, there may be no difference in the technical conditions. Manning a machine or organising a department calls for exactly the same kind of efficiency whether a business is publicly or privately owned; and there seems no reason for expecting either system to show a clear technical superiority in all cases over the other. One would rather expect 'private enterprise' to have the best of it where the *optimum* scale of organisation is relatively small and much depends on careful co-ordination of all the technical factors within a relatively small unit, and the positions to be reversed where the *optimum* scale is very large and the essential factor is unified control over a very wide field. For undoubtedly public enterprise will tend to be large-scale enterprise, whether the technical conditions call for large-scale enterprise or not. And, on the other hand, 'private enterprise,' even when its scale is large, will usually fall short of unification of all the relevant forces. Indeed, it probably is the case that 'public enterprise' is technically not the best way of running small-scale industries, and 'private enterprise' not the best way, even technically, of running those which call for a high degree of unified control.

The technical factors, however, do not stand alone and cannot be isolated. A business that is technically efficient may be conducted in a way contrary to the public interest, whereas a technically inefficient unit may be doing its poor best to serve the public. Moreover, a business can be both inefficient technically and reasonably efficient in its quality of service, or *vice versa*; for technical inefficiency may be made up for by zeal and energy, or technical efficiency offset by bad human relations. All we can conclude so far is that there is no *technical* reason why in large-scale business 'private enterprise' should allow more scope for prowess than 'public enterprise.' If it does, the reasons must lie outside the sphere of technique.

Charges against Public Enterprise

This, of course, is what they are alleged to do. It is alleged that 'public enterprise' suffers from two serious defects from which 'private enterprise' is normally free. The first of these is alleged to show itself on the side of management. The public manager, it is argued, having greater security than his private counterpart and anxious rather to avoid than to attract notice, is apt to take the line of least resistance; and the enterprising individual, who finds himself caught in the meshes of 'public enterprise,' is apt to

find his initiative stifled at birth, until he gives up trying or resigns in despair. Secondly, nearer the bottom, the ordinary workers, having security, see no reason for exerting themselves unduly, and there develops what used to be called, in relation to municipal services, the "corporation stroke."

Both these phenomena undeniably exist. But neither of them appears to exist in the Soviet Union, where by far the greatest experiment in 'public enterprise' has been made: nor does either appear to exist in such bodies as the Central Electricity Board or the London Passenger Transport Board any more than in large-scale private businesses—if even as much. Ah, but—say the critics—that is because neither in the Soviet Union nor in these British services does the element of security and of desire to avoid notice exist. The Soviet system plainly gives the utmost encouragement to prowess; and the British Corporations encourage it at least as much as British private large-scale business. Then the fault must lie, not in 'public enterprise' as such, but in a particular form of it which consists in applying the methods of civil service administration to the widely different problems of business control.

Prowess in the Public Service

The opportunity for the display of prowess can be given just as well, and diffused just as widely, under public as under private control, provided that the method of public control has been devised for the purpose of productive efficiency and not simply taken over from the methods of civil service administration. Nay, it can be diffused much more easily, because there is no public motive for wishing to concentrate power in the hands of a few men at the top. The private owners of industry must keep the key powers in their own hands, because they must ensure that industry shall be conducted for their profit. The public can have no such motive to prevent it from wishing to give initiative the most widely diffused scope. It can no doubt occur that the public's wishes are rendered ineffective by the desire of the head bureaucrats to concentrate power in their own hands; but this tendency can be kept in check whenever the head bureaucrats are not anonymous major-domos, sheltering behind Ministers who do not know enough to control them, but publicly proclaimed responsible officers, who have to justify their doings both to the consuming public and to their colleagues, high and low, in the services they control.

The 'prowess' argument, then, affords no such support to individualism as is often supposed. Indeed, the prowess for which individualism gives scope is undifferentiated prowess—prowess for

ill as well as for good—prowess uncanalised and essentially egoistic in its impulses. It is a prowess in exploitation, as much as in achievement, and, as far as it applies to lesser men, a prowess accompanied by a very high degree of insecurity.

But was I not urging, just now, that too much security was one great cause of the miscarriages of public enterprise? Yes, I was. Too much security is bad; but so is too little. A man should have, in a reasonably organised society, a fair chance of holding and improving his position if his performance is up to standard, *plus* an assurance that failing to hold it will not mean sheer ruin; but no man should be given the assurance that slackness or inefficiency will not be allowed to prejudice his tenure of office.

There is, however, a further distinction that needs to be made in connection with the question of prowess. For prowess can be either purely personal, or both personal and representative. The prowess of the business *entrepreneur*, great or small, is in essence purely personal. It is *his* prowess, conferring credit on him alone. The prowess of the manager, technician, or skilled worker who is attached to a large organisation is both personal and representative. It confers credit on the organisation as well as on the individual. But if the organisation is privately owned and controlled, the representative aspect of the prowess belongs to the firm and is related to the firm's ends. It is a prowess of service, not to the public, but to the controllers of the firm, and it may even involve disservice to the public—for example, when a head of a sales department devises an efficient monopolist control for exploiting the consumers, or when a works manager shows skill in evading the factory inspector's vigilance. On the other hand, when prowess is displayed in public enterprise it is again both personal and representative; but its representative character is in this case linked with the idea of public service, and therewith loses its ambivalent quality.

Prowess under Capitalism

The aim of a well-organised society should be to give plenty of room for the display of prowess in the service of the public, wherever it can be shown without trampling upon the reasonable claims of other men. There should be ample scope, in a rightly organised society, for the exercise of personal skill and initiative, technical and organising capacity, and the art of leadership, and there should be scope in all these things for emulation, as well as for absolute achievement. A modern society which fails to afford these opportunities to a high proportion of its citizens will indeed either stagnate or develop the essential characteristics of a 'Servile

State.' It by no means follows, however, that 'private enterprise' is, in the modern world, the correct way of achieving the desired result. It will be agreed that the unemployed man or woman, living on the dole, though he or she may in fact be putting up a quite heroic struggle against adversity, and preserving self-respect in conditions which continually threaten to undermine it, has little or no chance of displaying 'prowess.' Prowess is by no means the same thing as heroism: it includes the sense of achievement, and of recognised achievement, as well as courage or skill. A society which leaves a large proportion of its citizens either unemployed or in constant fear of unemployment is not one in which the required conditions exist. Even apart from the unemployed and those on the verge of unemployment, it spreads a sense of discouragement far and wide, and induces men to think rather of holding on tight to what they have than of achieving anything new. If, as seems clear, reliance on unplanned and unregulated 'private enterprise' involves considerable unemployment at all times and devastating unemployment at not infrequent intervals, the account against it is heavy, even in terms of its own favourite virtue.

Anti-social Achievement

Secondly, the forms of prowess which private enterprise encourages *at the top* are increasingly anti-social. They relate less and less to increasing production, and more and more to manipulating prices and supplies. The 'man of enterprise' who is most looked up to comes to be, more and more, the financier or company promoter, and less and less the actual producer. In war, no doubt, the scientist and technician tend to come into their own, and get recognition for their achievements in applied science; but that is because, under war conditions, the laws of capitalist production are temporarily in suspense. If the world returns to a régime of private enterprise, the scientists will go back to their pre-war position of relative obscurity and continual sense of frustration by the dominant powers of finance. The trust-makers, cartellisers, and company promoters will come again into their own.

Two Kinds of Economic Liberalism

I quite realise that the individualist dislikes these gentry as much as I do, except when he is one of them himself. But he either refuses to see that, in the modern world, there can be no protection against them except by invoking the State, or, if he does invoke the State, he calls upon it for a form of service which it is

almost wholly unable to give. In order to make this clear, it is necessary to draw a distinction between two kinds of *economic liberalism* which are still to be found among those who call themselves Liberals in a political sense, as well as among 'liberal' economists. The older economic liberalism told the State to protect the rights of property, but apart from that function to keep out of the economic field. The newer economic liberalism tells the State to enter the economic field in order to re-establish artificially the conditions which exist in the liberal world of economic theory, but not in fact. In effect, the older liberals believed in a law of nature which would cause things to work out all right if only the State would stand aside; whereas the newer liberals have lost faith in the efficacy of this law, but not in the theories that their fore-runners based upon it. They are therefore driven back to the extraordinary notion of an artificial 'natural' law, which is to be imposed by State action against trusts, combines, Trade Unions, and all forms of combination which stand in the way of a régime of perfect competition. If the State will but suppress these things, they contend, the symmetrical perfection which they can display in their theories will be translated into fact.

An Artificial Free Market

The first objection to this view is that it is quite extraordinarily difficult to prevent business men, or indeed workers, from combining if they want to combine. The liberal economists begin by urging that the profit incentive is the only foundation on which a satisfactory economic order can be based and then proceed to tell the profit-seeker that he must not act in accordance with it, wherever it induces him to prefer combination to unregulated competition. If in the order of nature profit-seeking did produce all the beneficent results attributed to it, there would be no necessity to restrain combinations; for either they would not pay, or their consequences would be beneficent. If it is necessary artificially to restrain combination, that is a sign of the inability of the profit-motive to ensure good results. Moreover, when the State does try to prevent combinations, without superseding the profit-motive or itself accepting any responsibility for production, the effect of its action is apt to be a damping-down, instead of an acceleration, of technical progress, wherever the scale of economic development is bound to be large. Profit-seeking firms will not embark vast capital sums on research and development unless they are to enjoy a monopoly of the discoveries they finance; and the forbidding of rationalisation and specialisation in large-scale industries is apt to prevent technical economies in production

from being applied. This is apart from the fact that, in nine cases out of ten, the prohibition of combination has been successfully evaded by changing its form. If a dozen businesses, instead of forming a cartel, choose to amalgamate into a single business under unified control, the resulting business is not a 'combine,' but an individual firm, to which the laws against combination enacted by a number of States do not apply.

It may be said that this objection could be met by better drafting of combination laws and stricter enforcement of the State's rules against monopoly. But the further the State advances in this direction, the more it finds itself setting up in industry a paralysing system of 'dual control.' Of all economic régimes, the least likely to encourage enterprise is one in which there are two separate sets of masters, one to give orders and the other to countermand them. We had experience of such a system in the coal-mines during the war, and it did not work well. It would have worked even worse if it had been suffered to continue in peace, especially if, as the liberal economists desire, the role of the State had been purely negative—to forbid restrictive practices, but not to take any positive part in the determination of industrial policy.

The second objection, then, is that, even if the State were able to make its negative will effective, the result would be to stifle enterprise, and not to encourage it. If it is once admitted that business men cannot be allowed to follow the profit-motive whithersoever it leads them—to competition or to combination as the case may be—the validity of relying on the profit-motive becomes suspect, at all events in all those branches of production in which strong tendencies towards monopolistic practices exist. It has then to be considered whether some alternative basis for determining the extent and forms of productive activity may not be preferable, at any rate in these particular parts of the economic field.

Incentives Lower Down the Scale

Thirdly, the forms of prowess which private enterprise encourages *lower down the scale* of the economic hierarchy, while they may possess two of the elements needed to encourage productive effort, lack a third which is of at least equal importance. Private enterprise does offer to a large number of those who serve it pecuniary rewards for special skill or effort and to a smaller but still considerable number a form of prestige. By piecework inducements and bonuses it seeks to induce high output, and it pays its employees at rates which rise with the power and responsibility,

as well as with the skill, demanded. It also gives to some the prestige of being charge-hands, foremen, under-managers, departmental managers, works managers, and so on, and thus enables them to rise in the scale of social consideration as well as of spending power. The element which its incentives lack is that of recognised public service. The fact that a man gets a high salary and occupies a high position in the industrial hierarchy is no assurance at all that he is a good and faithful servant of the public, or deserving of popular esteem.

It is, of course, on this element of public service that the Russians have placed a high reliance in their appeals for higher standards of industrial achievement. They have by no means discarded the old incentives of higher pecuniary rewards and higher social status: indeed, they have tended, after a revulsion against them, to bring them back more and more. But side by side with them they have stressed the new element of public gratitude and recognition; and it seems clear that this factor has been important in eliciting a human response. It is an element that can exist only where industry is either publicly run or is run in accordance with a policy which is publicly prescribed.

The Management of Socialised Industry

The problem, then, that we have to face is that of so organising the essential services as to secure the effective presence in them, at all levels, of the incentives and attitudes that make for initiative and for efficient service of the public interest. In an earlier chapter something has been said of this matter as it arises in connection with the conditions of employment in the workshops of a Socialist society. We have now to face the problem over a wider front, and to consider more precisely what are the conditions under which a Socialist society can avoid the dangers of bureaucracy inherent in all forms of large-scale organisation, and can provide instead a framework within which there will be the fullest encouragement for all forms of initiative that can be harnessed to the public service.

The British Civil Service—Past and Present

Let us consider first the general basis on which it is desirable to organise large-scale industries and productive services which are to be in some form 'socialised.' I have already insisted that the method of organisation must be one devised expressly for the purpose, and not taken over from the practice of public administration in the past. The British and other Civil Services are instruments devised not for the running of industries and services,

but primarily for the quite different tasks of supervision and enforcement of minimum standards, or of the raising of revenue and the control of public expenditure. The main government departments which existed at the time when the British Civil Service first adopted its existing methods of recruitment and promotion and its forms of internal organisation and routine were (*a*) the Treasury and Exchequer, Customs and Excise, and lesser financial agencies; (*b*) the Service departments—War Office and Admiralty—and the Foreign, Indian and Colonial Offices; (*c*) the Home and Scottish Offices, to which were added later the Local Government Board and the Board of Education; (*d*) the Board of Trade and the Board of Agriculture; and (*e*) the Post Office. Of all these departments, only the last directly administered any large-scale industry or service, though the Service departments had industrial branches under their control. The other departments were all essentially supervisory, except in the field of tax collection. The Service departments did not run the armed forces: they only supervised the work of the army and navy commanders. The Poor Law Board which preceded the Local Government Board had indeed exercised so centralised a control over the local Boards of Guardians as to come near at times actually to running the poor law service; but this was widely resented as an anomaly, and an attempt to establish a permanent central Board of Health on a somewhat similar basis had been defeated by the outcry against "bureaucratic control." The Board of Trade was concerned mainly with tariffs and commercial treaties, and very little with regulating industry, still less with running it. The Board of Agriculture was a newcomer, set up only in 1889, and had little power. The Board of Education (or its predecessor, the Privy Council Committee on Education) was hardly more than a machine for doling out grants to voluntary agencies and, after 1870, to School Boards locally elected and autonomous within their limited scope. The Home Office had the important duty of factory inspection, and was developing its police powers; but it was directly responsible for the conduct of the police services only in London. Broadly, it can be said that the Post Office was the single case in which the Civil Service was running any sort of business enterprise on a considerable scale.

The qualities needed in a Civil Service with mainly financial and supervisory functions were above all those of probity and intellectual ability. Few Civil Servants needed to show qualities of enterprise: indeed, when they were enterprising, as Edwin Chadwick was in the field of poor law and public health administration, they were pretty certain to get into trouble. What was

required of them was, first, incorruptibility; secondly, diligence; and thirdly, the ability to draft unambiguous regulations and to interpret them in relation to particular cases without creating in the public mind—or in that section of it to which Victorian England was prepared to pay any attention—a sense of unfairness as between one citizen and another.

The Civil Service of to-day is still recruited and drilled on the assumption that these are the principal qualities required of it. But its functions have greatly changed. It still, except in time of war, administers directly no large-scale industry except the Post Office; but it has developed, in the sphere of social administration, the large-scale and widely dispersed Employment Exchange section of the Ministry of Labour, and the Assistance Board, which come into direct personal contact with a large body of ordinary citizens. Moreover, many of the main departments—the Ministry of Health (formerly the Local Government Board), the Ministry of Education, the Ministry of Labour (including the Factory Department transferred from the Home Office), the Ministry of Agriculture, and the Board of Trade, as well as the new Ministry of Town and Country Planning, and the still newer Ministry of National Insurance, have all been acquiring functions, still mainly of a supervisory kind, which have compelled them to spread their emissaries throughout the country, to adopt at least some embryonic form of regional organisation, and to maintain, not merely occasional, but regular day-to-day contacts with the outside public. This development has called for an additional quality, which the old-style Civil Servant sometimes finds it hard to acquire—the capacity to get on human terms with people who are not Civil Servants, or drilled in the Civil Service view of life. It has not, however, called, save here and there, for the possession of the qualities which are requisite for the running of business concerns. It is still a main part of the Civil Servant's business to say no—though he has to say it more politely than of old—and, when he says yes, to endorse other people's proposals rather than initiate his own.

In consequence of its enlarged functions, the Civil Service of to-day has been forced to become a large employer of scientists and technicians in many different professional fields. But it has never felt quite at home in the process of assimilating these elements. The old Civil Service system was based on the belief that public administration needed to be recognised as a profession calling for a special range of qualities and accomplishments, which could be best acquired not by specialist training but by picking them up as the sequel to a higher classical education. It

was broadly assumed that any higher Civil Servant could pick up what was necessary for work in any department, and that the principal posts should be filled, not by trained specialists, but by men of high probity and general intellectual ability. The doctor, or other trained professional man, who had to be taken into the Service for a particular job which could not be done by a layman, did not really fit into the official hierarchy, and usually remained rather apart from it, seldom securing promotion to any of the key offices through which policy was controlled. The 'lay' pattern of the Civil Service matched neatly the 'lay' pattern of party politics. Minister and Civil Servant were alike 'laymen,' in the sense of having had no specialist training for their jobs; the Civil Servant, however, usually stayed in one job much longer than the Minister, and was therefore, *vis-à-vis* his nominal superior, the 'lay' professional dealing with the 'lay' amateur.

The Public Corporation

As soon as the question of transferring large-scale industries from private to public operation seriously arose, it became obvious that the Civil Service, as it was, would not do for running them. Indeed, as the Post Office developed into a more and more diversified and technical economic service, there was increasing discontent with the Civil Service method of conducting it—a discontent which led eventually to the 'Bridgeman Reforms' of 1932. The first important issue arose over the London docks, and was settled by the establishment of the Port of London Authority as an independent corporation governed by the users of the port, to whom were added a few representatives of municipal, labour, and other special interests. Forestry next called for attention, and was dealt with by the setting up of the Forestry Commission—a curious hybrid, with one Commissioner sitting in Parliament to answer questions and the rest appointed from outside Parliament, and with its financial operations controlled by the Chancellor of the Exchequer and the Treasury in such a way as to deny it the thing it needed most for success, ability to plan ahead over a long period. Next came the electricity problem, when it was realised that there must be a co-ordinated plan of generation and transmission of current over the whole country. This necessity was met by establishing the Central Electricity Board to build and administer the new 'Grid' system, not as a government department but as a public corporation entitled to raise its own capital by borrowing, and not subject to control by the Treasury as long as it did not ask for any government guarantee of its issues. The C.E.B. was composed of full-time members appointed by the

Government, but not represented or themselves sitting in Parliament; and there was, in effect, no parliamentary control over its operations except when it needed an extension of its statutory powers. The London Passenger Transport Board was largely of the same type, except that a Conservative House of Commons, in its fear of Socialism, took away from the Government the power of appointing its members, and devised instead an extraordinary system of "appointing trustees"—with the practical consequence that the Board became, to all intents and purposes, self-co-opting. In the pre-war Coal Commission, which took over the management of the coal resources when they were publicly acquired, the precedent of the Central Electricity Board was followed, in preference to that of the L.P.T.B., even by a Conservative Government. On the other hand, the Agricultural Marketing Boards set up in the 'thirties, which acquired in practice considerable functions of business management, were based on representation of private producers and stood, under the Ministry of Agriculture, which was responsible for them, for the strange conception of public operation for private profit. The British Broadcasting Corporation, which has been omitted from the foregoing list as involving problems of free speech and propaganda as well as of business organisation, was founded on yet another basis, with part-time Governors appointed by the Government and without spokesmen in Parliament, but with a general responsibility to the Prime Minister and through him to Parliament where questions of public policy were concerned.

All these expedients—the list of them could be prolonged—are mentioned here as showing that there was a general realisation of the unsuitableness of the Civil Service method of control for the conduct of business operations, but no clear view of the right alternative to it. It was recognised that the alternative must be some form of public board or corporation, not subject to Civil Service rules, but it was not at all clear how such boards ought to be chosen, how they ought to be related to the existing Civil Service departments, to the Government, or to Parliament, or under what economic rules and principles, if any, they ought to work. The various expedients adopted were all attempts, in varying degrees, to allow for greater elasticity than the Civil Service system allowed; to retain the valuable features of private business administration, while getting rid of the undesirable features; and to reconcile the ultimate supremacy of Parliament with the freedom of business enterprise.

So much was matter of agreement; but there was much disagreement over other issues. Socialists, and all who favoured a

planned economy, were bound to insist on the need, not only for giving to each public service a form of organisation suitable to its internal conditions, but also for providing means of co-ordinating its work, at the level of policy, with that of other industries and services. Evidently, if there was to be any sort of economic planning, each separate board or commission could not be suffered to go its own way, irrespective of the effects on other industries and services, or on the public plan as a whole. Co-ordination would be needed, and could be secured only by making each board or commission responsible in matters of policy to the Government, through the most appropriate department or Minister, while leaving each free to manage its particular service in its own way within the limits set by the policy presented to it.

Anti-planners and upholders of private enterprise, where they were driven to admit the necessity of public or semi-public operation of a particular service, naturally took the opposite line. Their desire was to make the public board or corporation as like as possible to a private business concern, and to prevent the Government from having any control over it in matters of policy and from using it as an instrument of any public economic plan. They therefore wished the members of the board or commission either not to be appointed by the Government or, if appointed by it, to be irremovable except for proved misconduct, and irresponsible, so as to be free to follow the market, and to operate the service *as if* for profit, subject only to the condition that they should seek, not monopoly profits, but only reasonable profits such as a régime of open competition might have been expected to yield.

In practice, as long as Public Boards and Corporations remained relatively few, and there was no government economic plan, the question of co-ordination did not often arise, and each separate Board was left largely free to determine its own policy within the terms of its Act or Charter without much, or even any, government control. Obviously, however, this situation cannot continue to exist now that there is a Government committed to a policy of full employment, which, as we have seen, involves planning in accordance with a definite scheme of priorities in the use of capital and labour resources. Even if control by the Government is extended under such a plan to industries and services which remain in private hands, it will obviously be applied to a greater extent to those which are owned and operated by public bodies. Planning involves the co-ordinated public regulation of the separate public agencies in charge of particular industries and services; and the co-ordinating function

can be performed only by the Government itself, or by some economic agency acting directly under its authority.

Representatives or Public Nominees?

We can, then, take as the first assumption for the form and organisation of public enterprise that publicly operated industries and services will be in the hands of specific Public Corporations (or Boards) acting under government direction in matters of high policy, but themselves responsible for the conduct of their affairs within this overriding condition. The first question that arises is this—who are the members of these Corporations to be, and how are they to be chosen? It seems clear that the Government must choose them, and must have the right, in the last resort, of replacing them; for how else is its control over policy to be assured? This, however, leaves open the question whether the Government should choose whom it pleases, or should be guided by the principle of representing any particular groups or interests, which should be invited to suggest names. There are two broadly different types of choice possible—with, of course, many intermediate varieties. At one extreme is the representative board, made up of persons chosen on the nomination of various groups or interests—the workers and managers in the industry, the consumers of its products, local authorities, government departments, professional associations, and so on. At the other extreme is the nominated board, chosen simply on grounds of personal suitability, without any element of representation or consultation with any group. Something much nearer to the second than to the first of these models seems to be clearly preferable, as more likely to yield a board whose members will be able to pull together harmoniously, putting first the task of giving the public good service, and not regarding themselves as obliged each to put first the claims of the interest which he represents. A board made up of representatives of widely divergent interests could hardly be expected to be either efficient or a faithful servant of the general interests of the people.

The Question of Guild Control

No doubt, higher efficiency might be secured from a board representing only, or preponderantly, a single interest. At one time I strongly advocated that socialised industries should be managed by Guilds representing the various groups of persons engaged in them—managers, technicians and manual and administrative workers—under the general policy control of the State. I did not suggest that such Guilds should control prices or

production policy or their members' pay; for such things clearly raise general issues which must be settled by representatives of the entire community. I drew a distinction between policy, which includes such matters, and the actual management and technical control of industrial processes, which I believed should be in the hands of the workers by hand and brain in each industry or service. I still hold this view, but not that it can be immediately applied. I think there must be, in the first instance, and to organise the transition, a Board for each industry, directly under the State, and consisting of persons chosen for their personal competence and not as representatives of any group or interest—though of course this must not exclude the choice of men who have had actual experience, as workers, technicians or managers, in the industry concerned. I believe these Boards should set out, as far as possible, to devolve responsibility for the day-to-day running of their industries on the workers actually engaged in the various tasks, at every stage from the individual workshop and establishment up to the regional unit and to the industry as a whole. In this way, I believe democratic industrial self-government can be gradually achieved without the dangers of 'syndicalist' control in the sectional interests of the producing groups.

Such Boards as are here suggested could, of course, be appointed in consultation with any groups or interests particularly concerned, though not on their nomination. What is essential is that the members of the Boards shall not be torn by conflicting loyalties as they are bound to be if they are expected to act at once as representatives of the public and of the special groups from which they come.

Staffing the Public Corporations

The next big issue arises in connection with the staffing of socialised industries and services at the administrative level. It was, I believe, a correct instinct that led to the staffing of the Central Electricity Board, the London Passenger Transport Board, and other Public Corporations not by Civil Servants or under Civil Service conditions of employment, but by direct recruitment and under conditions more closely resembling those of private business. This was easy enough when there were only a very few Corporations to be staffed: as their number increases certain problems are bound to arise. It will become necessary, in the interests of efficiency and opportunity, to facilitate transfers both from one Public Corporation to another and between Public Corporations and private businesses—and also, I think,

between the Corporations and departments of the Civil Service and the local government services. Such transfers will have to be made easy in both directions; and movement will have to become much more usual than it has been in the past both into and out of the public services as well as between one branch of them and another. This raises two important problems. In the first place, it should be made as simple as possible for men to carry rights of pension from one job to another, and conditions of pension should therefore be as far as possible assimilated over all fields of employment. Secondly, payment for work of the same standard must be made less unequal than it is to-day in different kinds of employment. This is not so big a problem as it may sound. It is not true, as many seem to suppose, that private business pays in general much higher salaries than are given in the public services. Private business does offer very much higher payments *at the top*, but to the general run even of its managerial, administrative and technical employees it certainly pays no more than similar persons get in the public services—if even as much. The problem is, then, mainly one of the very high rewards paid in industry to a very few people right at the top; and this could be dealt with by some scaling down in private business—which is likely to occur in any case under public control—and some scaling up in most branches of the public service.

Pensions and Security in the Public Services

The question of pension rights is closely bound up with that of security of tenure. If a man can leave his job only at the cost of forfeiting valuable accumulated pension rights, he will hesitate long before leaving it of his own free will, and there will be great reluctance to dismiss him even if he is inefficient or unsuitable. The more easily a man can carry his pension rights with him, the easier will it be for him to move—or to be moved. This will be a very great advantage from the standpoint of the happiness and satisfaction of the persons concerned, as well as from that of efficiency. Why, then, has so little been done to make pension rights transferable?

First, because employers are apt to regard the accruing right to a pension as a means of holding men whom they want to keep, against the offers of other employers to engage them at higher salaries or for more attractive work. Secondly, in the Civil Service especially, because the non-transferable pension right has operated as a safeguard against corruption. If a public servant could easily transfer to private employment, he might be tempted,

in hope of a good offer, to curry favour with business men with whom he had official dealings.

Salaries in Public and Private Employment

This, indeed, is the greatest difficulty in the way of to and fro movement between the public services and private business, especially in view of the much higher levels of payment at or near the top in profit-seeking business. It can hardly be dealt with at all completely except by an assimilation of salaries in the two fields, though a closer supervision of private business by the State is bound to involve much more movement between them. Accordingly, the assimilation is a matter of great importance. In practice, the high wartime levels of direct taxation on large incomes have considerably reduced the differences; and to the extent of their retention the size of the problem will be permanently reduced. It will, however, continue to exist until it is faced directly.

Up to a point, it must be faced as soon as the State takes over any substantial number of industries or services hitherto in private hands. There will have to be salary-scales for these socialised services, and they will have to be related to the scales existing in private industry if the State is to get and keep the best men. Probably, many of the best men will be ready to serve the State for somewhat less money (with somewhat greater security) than they could command in profit-making employment. But the differences must not be too great, and accordingly, at the top, socialised industries will have to pay higher salaries than are at present paid to leading Civil Servants. This will certainly react in time on Civil Service salary scales; and a new adjustment will gradually be reached, with rewards in both public and private employment corresponding to the incentives needed in the new Socialist, or semi-Socialist, form of industrial society.

How to Avoid Bureaucracy

Given greater mobility in the public services and between these services and private employment, it should be fully practicable to prevent Public Corporations from developing the familiar defects of bureaucracy, save to the extent to which these are inescapable in any form of large organisation. In particular, it should be easy to avoid the thing that more than any other makes for bureaucracy in the Civil Service as it is—the tendency for it to attract, because of the security it offers, a high proportion of the less enterprising among the clever. It can, I think, hardly be denied by anyone who knows the conditions that the administrative grades

of the Civil Service have in the past tended to attract young people of this type. They have done so, because the Civil Service has offered them a socially secure background for the cultivation of their personal interests. They have been prepared to serve faithfully, without corruption, and with reasonable diligence the departments to which they have been assigned; but they have not, for the most part, found in their work any absorbing interest or stimulus to personal initiative. This is partly because the hierarchy of the Civil Service usually gives the intelligent entrant to the higher grade very little responsibility during his early years of employment. Policy in the departments is in effect settled by a very few; and the administrative jobs done by the rest seldom call for, or even allow, any large exercise of imagination or personal initiative, except where a department has thrown out from its centre a considerable local and regional organisation. Where this has happened, the opportunities are apt to be much greater for the junior men; and this is one reason why the movement towards regional organisation has been so strongly resented by the leading seniors in some of the departments.

It would help a good deal towards enlarging experience and stimulating imagination and initiative if, in particular, there were much more frequent movement from the national into the municipal, and from the municipal into the national, service. This would involve a common plan of recruitment and organisation over the whole country, instead of the almost complete localism that has prevailed in the past.

A further question of great importance is that of the relations which should exist between public boards or corporations set up for the conduct of particular industries or services and the House of Commons. If the Corporations are to be subject in matters of policy to government control—as they must be if they are to be effective instruments of public economic planning—it is clear that Ministers will have to answer for them in Parliament. It would not fit in well with this to put at the head of each board a Member of Parliament or even, as in the case of the Forestry Commission, to have one parliamentary member to speak for it in Parliament. On the whole it is undesirable for Parliament to be closely connected with the day-to-day administration of socialised industries, or for M.Ps. to be able to catechise the managing boards about any and every issue, no matter how small or personal, that may arise. There is, however, something to be said for the proposal that there should be Parliamentary Committees set up to follow and advise upon the working of each of the main departments; and these committees could be given the right to call before them

and to consult with representatives of the managing boards of the Public Corporations falling within their several fields. In addition, the affairs of each Board or Corporation should be the subject of debate at least once a year in Parliament, or on one of its Standing Committees; and of course the policy plans for each such body should be included in the 'Man-power Budget' or 'Economic Planning Budget' which will need to be laid before Parliament each year as an expression of the Government's general economic policy.

There seems to be no reason why a system of public enterprise organised along the lines here proposed should be open to the charge of bureaucracy, though in the last resort the best safeguard against bureaucracy is not mistrust of public organisation but the presence among the people, including the potential bureaucrats, of a spirit of hope, adventurousness, and confidence in their country's future.

CHAPTER VIII

THE INSTITUTIONAL FRAMEWORK AND THE CONDITIONS OF SOCIAL PROGRESS

The Political Institutions

WE MAY NOW RETURN TO what was said earlier about the three types of institution which together make up the framework of society. We described these three types as the *political*, the *economic*, and the *social*, and we defined them, briefly, as including (*a*) the institutions of government, local as well as national, and the forms of association, such as political parties, directly connected with these institutions; (*b*) the institutions of production, distribution and exchange, including such informal institutions as the systems of property rights and local tenure, as well as the more personal institutions, such as joint stock companies, Co-operative Societies, Trade Unions, banks, trusts, and financial agencies of many other kinds; (*c*) institutions not primarily political or economic, but embodying conceptions of social valuation and belief, such as churches, educational and cultural bodies and establishments, and, on the impersonal side, the institutions of freedom of speech and writing and of association, marriage customs, and the codes of conduct regulating everyday intercourse in a wide variety of social relations.

The controversy in which totalitarianism and industrialism are the poles arises in all three fields, but in somewhat different guises. In the sphere of economic institutions it centres, as we have seen, round the question of industrial ownership and the direction of economic policy, with which throughout the present section we have been mainly concerned. In the sphere of political institutions, it centres round the forms of government, and in that of social institutions round the forms of association, and the degrees of freedom to be accorded to them, and round the general issues of personal freedom.

When, for any reason, the normal working of society has been interrupted and the foundations of the social order have been called into question, the immediately ensuing contest, whatever its underlying nature, tends to turn directly on the nature of the political institutions with which the formal task of shaping a

new order is to rest. This is so, even if the underlying issues are really economic or social, rather than political; for, though the people can sometimes settle by direct action (e.g. by seizing the land) how a fundamental issue is to be determined, it is the political institutions that make the laws, including the laws which decide their own form. The political process of law-making may be, in greater or lesser measure, really a registration of economic facts and relations; but until there exists a political instrument and it makes laws governing the essential relations, the society can have no assured basis for the carrying on of its day-to-day affairs or for its dealings with other societies. Accordingly, in Europe and Asia to-day, wherever societies have been shaken to their roots, the first task is to get some sort of governing and legislating machinery into effective existence. This may be done either by reinstating the political institutions of the past, and then proceeding to modify them, if they are deemed to need modification, or by setting up a provisional régime to define the conditions and take the necessary steps for creating a new permanent form of political structure.

Political Issues in the Post-war World

Thus, as I write, early in 1947, in Holland, Norway and Denmark, the old political institutions have been put back as a preliminary to considering necessary changes. In Belgium this has been done, subject to the qualification that a King suspected of collaborationism has been replaced by a temporary Regent, without any overt challenge to the institution of monarchy, as distinct from the past occupant of the throne. In France, there has been, up to a little while ago, a provisional régime, which was in effect appealing to the people by plebiscite to say whether it wished to regard the old, pre-Vichy, constitution as still in force or to set up an entirely new Constituent Assembly in order to make a fresh start. This provisional régime has been engaged as an outcome of the popular verdict, in the difficult task of drafting a new Constitution acceptable to the three great parties which are contending for the right to shape the new society. The new Constitution has been drafted and, after a first rebuff, approved; but it is still being opposed by powerful forces headed by General de Gaulle, and cannot yet be regarded as resting on any secure foundations. In Italy, there is again a provisional régime, within which lively disputes have been proceeding both over the issues of Monarchy *versus* Republic—now settled in favour of the Republic—and over the form—still unsettled—that

is to be given to the political structure of the new State. In Greece the same issues have been in question, but the royalist provisional government at present in power has been put there, not by the Greeks, but mainly by Great Britain as a consequence of politics set on foot under Churchill, who both favoured Monarchy and regarded Greece as falling within the British sphere of influence. In Bulgaria, Roumania, and Hungary there are provisional governments in effect set up and maintained by the Soviet Union, and the entire future of the political structure has still to be finally settled. In Poland, after a struggle, a Soviet-sponsored Provisional Government, with some modifications, has successfully ousted from recognition, as well as from power, the old Government previously recognised in exile by Great Britain and the United States. In Yugoslavia, there is a Revolutionary Government, originally based on an accommodation between the old Government and the new institutions set up by Marshal Tito's army of liberation; but now, since the removal of the King, exclusively dominated by the elements favourable to the Soviet Union. In Austria there is a democratic Provisional Government, recognised by the Soviet Union as well as by Great Britain and the United States; but the entire shape and structure of the new State is still undetermined. In Spain, there is a Fascist Government still in power, challenged by a Republican Government which claims to be the legitimate successor of the Government ousted in the civil war. Attempts to stir U.N.O. into action against General Franco have so far failed in face of British as well as of American reluctance to take any action that might antagonise Catholic sentiment. In Germany there is no Government at all, but only a foreign administration set up by the victorious Powers—or rather several administrations under military auspices, hardly at all co-ordinated, in face of sharp differences of policy between the occupying Powers, by a central control council in Berlin. In December, 1946, agreement was reached for some sort of merger between the British and American Zones; but this was mainly for economic purposes, and did not in any way settle what the new political system in Germany is to be. In Japan there is—I know not what; for the course of events since the Japanese surrender has been almost impossible to follow without much more knowledge than I can claim to possess. All that can be said is that the Americans appear to have taken exclusive control in Japan to an even greater extent than the Soviet Union has done in any part of Eastern Europe, and that the new Japanese Constitution, which leaves the Emperor at the head of the State and conservatives in the main positions of power and influences, is

definitely American-made. In China there is a central Government, recognised by the United Nations, but at loggerheads with a rival Communist régime in the north-western provinces, so that the country, despite the meeting of a nominated Constituent Assembly (dominated by the Kuomintang) in December, 1946, and the adoption of a new constitution, is in a state of civil war.

In all these countries, and in others which I lack space to mention, the future political structure is uncertain in varying degrees. In the West Holland, Denmark and Norway alone seem to possess an assured political basis on which to rest their future: so that there changes can be made constitutionally without necessarily raising any extra-constitutional issues—though, of course even in these countries, such issues may arise, and in the case of Holland there have already arisen very large issues in connection with the future of the Dutch colonial empire.

Two Views of Economico-political Relations

According to one notion, which is widely accepted in the countries which have developed under systems of parliamentary government, settling the political structure of society is one thing, and settling its economic structure quite another. On the basis of this notion, the correct procedure for a country which wishes to equip itself with a new set of institutions is first to call into existence some sort of Constituent Assembly, which will thereafter draw up a new constitution, and only when that has been done to revise its economic and social institutions by the constitutional procedure of legislation. To the leaders of opinion in the parliamentary countries, or to most of them, it seems right and natural that such a Constituent Assembly should be elected by universal, or at least by manhood, suffrage, and that there should be political parties, representing widely different political opinions, to nominate candidates and to carry on propaganda before the election. It also seems right and natural that the Constituent Assembly should be made up of the successful party nominees and should settle by majority voting what the structure of the new State is to be. While these things are being done, it seems right and natural on the assumption of parliamentarian democracy that the existing economic and social institutions, whatever they are, should continue in operation, and should be taken as valid for the time being, though of course the parties are to be quite free to call their expediency into question with a view to their future amendment by the approved methods of legislation. The only qualification admitted seems to be that, when a country has been under Fascist control, it is thought right to eliminate

Fascist influences (which are, however, variously defined) before proceeding to consult the people about the form of the new State. How this is to be done without to some extent prejudging the future economic structure does not appear at all clearly. In practice, it is always a matter for difference of opinion whether it is more important to make a holocaust of Fascist influences or to leave them partly in being in order to avoid upsetting the continuity of economic life.

Obviously, no Soviet political leader would think of matters in this way. In the Soviet philosophy, political institutions are derived from economic institutions, and the first question to be settled is the basis of the future economic order. When this has been decided, the appropriate political institutions to go with it can be readily devised. To settle the political structure first, and the economic structure later, is to put the cart before the horse.

It follows that Soviet thought by no means takes as natural the creation of the new political instruments by a Constituent Assembly representing all the conflicting opinions of the citizens on a basis of party, or elected after a campaign in which every political party (except those which are regarded as definitely Fascist) has been allowed equal freedom to express its views. In Soviet philosophy the creation of the new social framework is a revolutionary act, beginning with the *de facto* establishment of a new order, which must at once be made effective in both the economic and the political field—and, also, at any rate to a considerable extent, in the social field. The processes of economic and social transformation cannot be allowed to stand over: they must be carried through promptly, in order to provide the right foundation for the new political order. As for the Constituent Assembly, if it is to exist at all it must be so chosen as unmistakably to reflect the consequences of the economic revolution. It must stand in all essentials for the 'dictatorship' of the class or classes which the revolution has brought to power, and must *represent*, not all the citizens in their individual opinions, but primarily the forces responsible for the establishment of the new order.

Two Views of European Reconstruction

It is no wonder if, on the morrow of victory in Europe, the United Nations failed to see eye to eye about the means of establishing 'democracy' in the liberated and defeated countries which needed to find a new institutional basis for their common life. When a country was occupied by the Soviet Union, there usually arose in it a Government which stood for a new economic

as well as for a new political structure; whereas in the countries occupied by Great Britain and the United States, or subject mainly to their influence, the attempt was made to deal with the problems of reorganisation, apart from measures aimed directly at Fascism, in purely political terms, leaving the economic issues to be adjusted later, when the new political institutions could get to work upon them. The politicians of the West were apt to regard Soviet behaviour as simply aiming at the setting up of Governments which could be relied on to follow the lead of the Soviet Union and to keep their countries within the Soviet 'sphere of influence'; whereas Soviet opinion regarded the policy of the Western powers as simply an attempt to restore capitalism by setting up parliamentary institutions without any change in the economic foundation on which they would necessarily be based. Up to a point, each side was right about the practical effect of the other's policy, though not about the motives behind it. If Soviet Governments, reflecting a basic change in the economic order, could be set up and securely entrenched in Eastern Europe, they would naturally gravitate towards the Soviet Union, as their near neighbour and the main focus of Soviet power. If parliamentary Governments could be set up in the West, and the economic order be left unchanged until they had pronounced upon it, such Governments would naturally gravitate towards Great Britain and America. But this was not the only reason why the Soviet Union favoured one sort of new Government, and Great Britain and America another. To each side, the choice which it made seemed right and natural, as according with its own conceptions and traditions of social organisation.

In fact, of course, the Soviet Union did not set up Soviet Governments in the areas which it occupied, or encourage the setting up of such Governments by its own supporters in these areas. Stalin did not at all wish to provoke a direct conflict on this issue among the United Nations. He compromised by setting up Governments of a provisional character which did not rest ostensibly on a dictatorship of the revolutionary forces or on a complete change in the economic order, but were in fact so weighted as to ensure Communist preponderance, while allowing some latitude to other parties not too far removed from the Communist attitude for collaboration to be possible. In the meantime, under provisional régimes, mainly representative of the forces of revolution, the processes of economic change could in fact be pushed forward, so as to provide the necessary conditions for a radically new political structure. In Poland, in order to secure recognition for the Moscow-sponsored Government and the

liquidation of the old Government previously accepted by the Western powers, the Russians were compelled to go further and to call back to office some of the leaders of the old parties; but these reinstated leaders can hardly be having an enjoyable time. In Czechoslovakia they had to go further still, and to accept a Government formed mainly on the western model—after its leaders had given assurances that they would cordially co-operate with the Soviet Union. These concessions were necessary in order to prevent a definite rupture between the Soviet Union and its Allies; but they did not, where they were made, evoke a willingness on the part of Great Britain to make parallel concessions in Greece or, on the part of either Great Britain or the United States, a willingness to accept as adequate the concessions made by the Soviet Union in Bulgaria, Roumania, and Hungary.

Two Views of Democracy

It is of the first importance for the building of good international relations to understand that these differences were not simply due to the desire of the Soviet Union to extend its sphere of influence in Eastern and Southern Europe, or to the desire of America and Great Britain (either under the Churchill Coalition or under the succeeding Labour Government) to make the world safe for capitalism. They arose out of a real difference of opinion about the nature of democracy and the forms of political organisation required to uphold democratic principles. The conception of democracy which is very widely held in Great Britain and the United States takes for granted the separability of constitutional from economic issues and the possibility of constructing a democratic political instrument through which the decisions about the economic structure of society are to be made. Indeed, a great many people in both countries regard democracy as an almost exclusively political conception, and have no hesitation in thinking of their societies as 'democratic' to the full extent to which their political institutions are based on a popular franchise, so that the whole people takes part in choosing its Government. According to this view, the nature of economic relations in society is something quite apart from the problem of democracy; and democracy is fully consistent with the existence of the widest differences in wealth, income, and economic status. This is a common English governing-class idea of democracy—it is for example the sense in which Winston Churchill appears habitually to use the word. In the United States, it is perhaps more common to regard democracy as fundamentally neither a political nor an economic concept, but as in essence social, and to claim that

American institutions are democratic because they rest on the assumption that one man is as good as another, until he proves himself better or worse in the actual business of life. Thus, Americans are apt to regard as part of democracy the very fact that a poor man may become a millionaire, and to be surprised at the idea that the existence of millionaires should be regarded as contrary to democratic principles.

Both these attitudes, the American and the British, stand in sharp contrast to the Soviet attitude. But they come into conflict with it in somewhat different ways. The Americans are disposed to think that what matters most is the establishment of conditions of 'free enterprise' in the sphere of business, and that, given this, the right political and social systems will be sure to follow. The British are more disposed to put first the establishment of a 'free Parliament,' with a Government depending upon it, and to believe that, given this, the powers of production will infallibly get organised according to the people's will. 'Free enterprise,' however, requires a Government to maintain it and to regulate the property relations on which it depends. The Americans therefore press in practice for the kind of political settlement that they think most likely to support a 'free enterprise' system; and this, in the existing condition of Europe, leads them to back parliamentarism against any sort of sovietism or semi-sovietism. In practice, then, the American and British attitudes to political questions tend to be the same, and to conflict sharply with the attitude of the Soviet Union.

How far has this confrontation of forces been changed as the result of Labour's electoral victory in Great Britain? Not much; for, though the British Labour leaders recognise the need for economic as well as for political democracy, they also regard them as two separate things and not, like the Soviet leaders, as fundamentally one and the same. British Labour regards political democracy both as an end in itself and as an instrument to be used in winning economic democracy: it does not instinctively regard economic democracy as the means of achieving political democracy or as the only foundation on which political or social democracy can be built. A British Labour Government, no doubt, differs from a Conservative Government in having no predilection for monarchies as against republics in continental Europe; but it has shown just as strong a predilection as the Conservatives in favour of parliamentary institutions, 'free' elections, and the more-than-one-party system as against the single-party system in force in the Soviet Union. Accordingly, however much Mr. Byrnes and Mr. Bevin differed from each other as

well as from the Soviet Union about the best economic basis for European reconstruction, they tended to agree about the political basis.

The events of the past year in Europe have all too clearly revealed the serious danger that the very visible cleavage of opinion between the Soviet Union and its Western allies about the political resettlement of Europe will not be mended by the advent of a Labour Government in Great Britain. As long as the issues remain political—that is, centre on forms of government—Great Britain and the United States will tend to take one line, and the Soviet Union another. But to the extent to which the issues shift—as they have not yet done—from politics to economics, a different orientation may tend to appear, with the United States doing its level best to restore 'capitalist enterprise' and Great Britain aligned with the Soviet Union on the side of Socialism. It follows that those who hope for a close unity in action between Great Britain and the Soviet Union will wish to see the economic issues come uppermost, whereas those who put their faith in Anglo-American unity will wish to keep the political issues in the leading place.

Two Views of Socialism

Yet the problem is less simple than the preceding paragraphs make it appear, because British Labour and the Soviet Union stand, as we have seen in an earlier chapter, for different conceptions of Socialism. British Labour is aiming at a kind of Socialism that can be developed on the basis of parliamentary institutions, the more-than-one-party system, and an almost complete freedom for anybody, and any party, to advocate anything they like. The Russians, largely for historical reasons which I have attempted to analyse, have hitherto refused to believe in the possibility of this kind of Socialism, which has seemed to them to involve a denial of the derivative nature of political institutions and of the primacy of economic forces. Consequently, wherever there arises in Europe a keen tension of economic forces, the Russians will tend to look for a way out through social revolution, involving a simultaneous transformation of economic and political institutions, whereas British Labour will tend to aim primarily at a political solution, both in the belief that democracy means parliamentarism and that parliamentarism is therefore right in itself, and in the hope that the establishment of a democratic Parliament will clear the way for economic measures of democratic Socialism.

I have argued already that neither of these attitudes is right under all conditions. There will certainly arise, at any rate in the

countries which have no strong tradition of parliamentary government, situations in which a purely political solution is quite impracticable, either because no solid basis for a parliamentary majority can be found or because, even where such a basis appears to exist, the parties composing the majority have no sufficient hold upon the real forces of the country to enable them to impose order. The same difficulties may arise even in countries which have a parliamentary tradition, if antagonisms have become very sharp; for parliamentary democracy is based on the assumption that the opposition will accept, or at any rate will not positively revolt against, the Government's measures, as long as there is a parliamentary majority behind them. Where these conditions are absent, or where political parties are weak, there may be no way out on a purely political plane, and some sort of social revolution may be the only practicable policy. But British Labour will, I think, be very reluctant to accept this necessity, even where it exists.

The Russians, on the other hand, will tend to believe, always and everywhere, that there is no way of advancing towards Socialism except by social revolution. They will not, however, for that reason press everywhere for it. Their policy, as far as can be seen at this stage, will be one of caution—which will often look very like sheer obstruction—and of refusal to overtax their strength, which has been strained to the utmost, and will take some time to rebuild. They will doubtless urge on the forces of social revolution where they feel strong enough to do so without involving themselves in a really serious quarrel with America and Great Britain; but elsewhere they will tend to follow a policy which Western Socialists will not find easy to understand. Holding, as they do, that Socialism is essentially a matter of the underlying economic system, they will not regard as really Socialist any Labour or Social Democratic Governments that may be in office in countries in which the economic order has not been radically transformed. They will accordingly show such Governments no particular favour as against capitalist Governments. Indeed, they may even, in some circumstances, prefer capitalist Governments, which they will regard as more really representative of their countries and as less likely to suffer from the 'contradictions' which will beset any Governments which attempt to pursue socialistic policies in an economic environment of capitalism.

I have stated these dangers strongly, because I believe the best chance of overcoming them is not to ignore them, but to face them frankly. There is in the British Labour movement and in

the Labour movements of all the Western countries a keen desire to be on good terms with the Soviet Union, and to join hands with it in the resettlement of world affairs. This widespread feeling will be a strong brake on any section which attempts to insist on the general applicability of its notions of parliamentary democracy to the extent of quarrelling with the Soviet Union. But more than a brake is needed; for it is a question of positive collaboration and not merely of avoiding an open quarrel.

Real collaboration involves a change of attitude on both sides. It involves convincing the Russians, by practical demonstration, that it is possible in Western Europe to make a real advance towards Socialism by parliamentary methods. This British Labour now has the chance of doing, and the good or bad use it makes of its chance will be of vital importance not only for Great Britain but, still more, for the world as a whole, and more immediately for all Europe. In addition, it involves convincing the British Government and its supporters that parliamentary democracy is not the only kind of democracy, and that parliamentary institutions are not necessarily suitable or workable everywhere and under all conditions.

Social Institutions and Social Change

So far, I have tried to state the case entirely in politico-economic terms; but there is still to be considered the third type of institution, which earlier in this chapter I called 'social,' in order to distinguish it from the political and economic types. Social institutions, in this sense, are all those which form part neither of the machinery of government nor of the economic framework of society, but act as focusing points for other kinds of loyalty and self-expression. They include, as we saw, the religious life of society, save where it is incorporated in the machinery of government; the life of groups and associations, except those which are mainly political or economic; and the whole personal and private side of life, wherever it expresses itself in institutions such as freedom or unfreedom of speech or conduct. They include, too, the educational and cultural institutions of the society, its arrangement for organised recreation and amusement, and its social stratifications and alignments, in such aspects of them as are not predominantly expressions of current economic forces. Thus, monarchy is a political institution, snobbery a social.

The difference between Great Britain and the Soviet Union—and between Eastern and Western Europe—is social as well as politico-economic. Soviet and British conceptions of personal freedom, for example, are a long way apart; and again the difference

rests partly on history and partly on a divergence of philosophic beliefs. The Russians have been used to an inquisitorial and intolerant State; and to a considerable extent their revolution has inherited these qualities, not of set purpose, but because they had become part of the established basis of living. A police engaged in espionage causes no such revulsion of feeling in the Soviet Union as it would here; there is no such sentiment as we have against the State's officials opening private letters or studying private bank accounts. Restrictions on travel are not resented as they would be if they were maintained here in time of peace. There is no strongly entrenched sentiment, such as we take for granted, in favour of privacy for a man's personal doings. On the other hand, the Russians will tell you that the ordinary citizen in the Soviet Union has much more freedom than the ordinary worker in a capitalist country because the country is his and he has no fear of losing his place in it; and they will contend in addition that he has a keener sense of personal freedom because of the feeling of liberation which has been aroused in him by the revolution and by his sense of positive collaboration with his fellows in the constructive task of consolidating and completing its achievements.

British and Soviet Ideas of Freedom

From the standpoint that is common in Great Britain, it seems dreadful that a man should not be free to say what he likes about the Government within extremely wide limits; to hold and express what views he pleases about nearly anything (though not when his doing so may be held by a magistrate or judge to threaten a breach of the peace); to consort with whom he likes, without regard to their political or economic opinions; to associate with others, in any grouping they choose to form, for any purpose not contrary to law, without asking anybody's leave; and to complain as much as he likes, without being accused of sabotage or treason, or of any other offence against society. Of course, not even well-to-do Englishmen can in fact do all these things without restriction even in time of peace; and less well-to-do Englishmen can do less of them than the well-to-do. But, to a large extent, the Englishman has come to regard these liberties as part of his birthright, whereas the Russian has not, either under Czardom or under the Soviet system.

The dislike which is felt in Great Britain, by Labour leaders as well as by many others, for Russian methods is based as much on the refusal of these social liberties as on political or economic differences. Of course, many of these liberties have a political or

economic, as well as a social, aspect. Freedom of speech and of association are both political as well as social liberties, and are also closely related to the economic side of life. But they appear, and have their importance, over the whole field of living, and not only in political and economic connections. For the Russians, however, social as well as political phenomena are reflexions of the underlying economic relations; and the effect of this philosophical doctrine is to bring every side of life into connection with the economico-political structure. In the early days of the Russian Revolution, this led to curious extravagances, such as the attempt to interpret every work of art and every achievement of science or learning in economic terms. The dialectical method had to embrace everything; and, not content with finding dialectical interpretations everywhere, the would-be orthodox theorist of the Soviet system in its adolescence tried to make everything bear an economic interpretation. Those days are past; and a picture by Van Gogh no longer runs the risk of appearing in a Soviet exhibition labelled as an example of "*petit-bourgeois* art, *circa* 1900." But the feeling that the whole of a man's life is bound up with his economic status as a producer persists, and reinforces the practical arguments which lead to restrictions on personal liberty of speech and association in the interests of public security.

Is the Soviet System Totalitarian?

In this sense, the Soviet system does possess totalitarian characteristics. But the totalitarian element in it is quite different in origin and intention from totalitarianism in its Fascist form. There is in Russia no exaltation of the State as a mystic being superior to the citizens, and distinct from them as the repository of the higher values. The Soviet State exists for its citizens, not they for it. It exists for them, however, collectively rather than individually; for they are thought of, not as so many separate individuals, each with his own different needs and desires, but rather in the mass, as a number of human beings whose basic needs are much the same, and who will on the whole achieve happiness in the same ways, and together, rather than by following each his separate bent. This is an attitude commonly found among relatively primitive peoples; for sociologists are agreed that stress on separate individuality comes at a fairly late stage in social evolution. It is partly because the Russians are still a primitive people, who have emerged with startling suddenness from their technical immaturity, but have been unable to change their minds as fast as they have changed their machines, that they have been able to

swallow the class-concepts of Marxism so completely. It is, however, also true that they could hardly have succeeded in consolidating their revolutionary victory unless they had been able to perform this feat.

The Genesis of British Liberties

For surely it must be admitted that the freedoms which I listed a page or two back as the Englishman's idea of his birthright not only cannot be preserved intact in a social revolution, which involves a radical transformation of society, but are exceedingly powerful preventives of such revolution wherever they exist. It will be very difficult for Great Britain to have a social revolution, as long as they remain as the social practice of the country and are accepted by men on both sides as governing the terms of controversy in both word and deed; but it is no less true that they can be the social practice and be thus accepted only because and as long as there exists a real sense of unity among the people, transcending political and economic differences. The freedoms we reckon on and value in Great Britain are not independent of our political and economic relations, or their cause. They are rather the product of a long process of political and economic development, which has served to consolidate them to a degree unknown in any other large country. They were thus achieved and made a part of the British way of life largely because of five events, or series of events, which are peculiar to our national history.

(1) England, for reasons which it would take too long to explain, emerged from absolute monarchy into an aristocratic system in which the aristocracy did not form a closed class, but mingled with, and recruited itself from, the developing plutocracy of commerce.

(2) Because of this admixture of aristocracy and plutocracy, the governing classes, when the time came, did not stand out against admitting to a share in power the new plutocracy of industry created by the Industrial Revolution: instead, a section of the old governing class took the lead in passing the Reform Act of 1832, which admitted the new plutocracy to a share in making the laws, and to social recognition as a new recruit to the governing class.

(3) There could be no 'finality,' as most Whigs hoped there could, about the settlement of 1832, because the industrial and commercial middle classes, having been recognised as junior partners in the State, were bound to seek a further widening of the franchise in order to strengthen their hold on the State

against the old aristocracy and the elements which it had more completely absorbed into itself. As long as Chartism seemed to threaten the basis of the social order, the fears of the new plutocracy caused them to side with the old governing class in resisting further democratisation of the State; but as soon as the working classes, sharing in the greater prosperity made possible by Britain's long technical lead in the world market, gave up making revolutionary noises, the upper section of skilled workers was brought within the circle of recognised citizenship by the Reform Act of 1867.

(4) These numerous new recruits, however, could not be absorbed into the governing class as, to a large extent, the industrial plutocracy had been absorbed. There were far too many of them; and their economic status was too different. Accordingly, they in turn became a force making for further democratisation of the political machine, both because they pressed for it directly and because the Conservatives hoped that the further extension of the franchise would bring in a section of the people—the agricultural and village workers—less radical in opinion and more amenable to pressure from its traditional feudal superiors. Accordingly, the Reform Act of 1884 extended the franchise to almost the whole male working class, with consequences which, in practice, held back for the time, instead of advancing, the progress of democracy, and placed British politics for a while on a basis of struggle less between rich and poor than between rival upper- and middle-class factions, each with a popular following. Modern British Socialism arose mainly as a revolt against this tendency to shape party politics along lines remote from the fundamental economic issues; and, to the extent to which Socialism captured the allegiance of the working classes, the economic issues came back into politics, but came back in a form which reflected the intervening relaxation of class tensions and did not involve an abrogation of the compromising tendencies of British political life.

(5) The process of political democratisation was continued in later measures of parliamentary reform; including the enfranchisement of women, which at first acted as a conservative force, though not for long. The total effect was gradually to admit more and more of the people to a share, not only in making the laws, but also in forms of social freedom which had been originally the prerogatives of aristocracy, but had to be extended step by step to new sections of the population as they were given a share in political power. British social history was

thus, like British political history, a process of gradual democratisation of what were at the outset essentially aristocratic institutions. Revolutions usually abolish privileges: British reforms have democratised them instead.

This thumbnail history of Great Britain's political and social development has a very un-Marxist appearance; but it is fully consistent with a predominantly economic interpretation of history. It is, on the other hand, entirely inconsistent with the dogma that every rising class must destroy the State made by its predecessor and set about making a brand-new State in its own image. The British State has been repeatedly transformed from one class-basis to another without being destroyed or replaced. It has been adapted to serve different sets of masters—but always by the addition of new masters without the expulsion of the old; and because it has been adapted instead of being destroyed, its traditions of internal liberty, originally confined to the few, have been largely transferred with it, and have been able to grow into a tradition of personal freedom, not merely for aristocrats, but for ordinary people as well, albeit not to the same extent. This has happened, despite the fact that Great Britain has remained economically an oligarchy, economic power having been transferred by successive changes not from the few to the many, but only from the very few to the few. If the economic factors had been always the dominant factors in determining the nature of political and social institutions, *and had always so determined them as to produce identical effects in all three fields*, this could not have happened. It is, however, quite possible for the economic forces to produce one set of effects in the economic field, and others in the political and social fields; and this is precisely what, in conjunction with other factors, they have done in Great Britain.

The Conditions of British Liberties

Now, I personally hold that the British achievement in the field of personal liberty is a great thing. It is a great thing for men to be able to differ without flying at one another's throats; to feel assurance enough in the foundations of their way of living not to wish to persecute everyone who criticises it; to conduct elections with a practical certainty that the ballot will be really secret and the votes counted fairly; to have freed themselves enough from the instincts of the herd not to regard nonconformity, or even eccentricity, as a crime; to consort socially with their political and economic opponents without quarrelling or embarrassment; and even to recognise that diversity of views and tastes adds a desirable richness to living. All these are very good things indeed, and

form, I hope, in this country, a part of every decent man's conception of Utopia—of course in very much more developed forms than those in which we possess them now.

The trouble is that, outside Utopia, these blessings cannot be had without certain other things that may, in some circumstances, be actual and very serious disadvantages. They imply a stability in the foundations of society and an absence of tension in social affairs. They imply that current problems can be solved, if not by agreement, at any rate in such a way that those who disagree will be prepared to accept the accomplished fact, and will seek only to modify the effects of changes they dislike, and not wholly to undo them. They produce admirable results wherever the facts square with these implications. If, however, the political or economic structure is in fact seriously out of adjustment to the situations which need to be faced, the very habit of mutual accommodation may stand badly in the way of the necessary changes being made. It may cause vital problems to be evaded, instead of attacked, because of the sharp differences to which any attempt to deal with them courageously would give rise, and it may engender, in those who have grown up in it, a sheer incapacity to recognise a real emergency when it arises.

Conditions of emergency are the real test of a people's capacity to achieve mutual tolerance and recognition of one another's rights without losing their power of courageous action. In any society, the spirit of accommodation has its breaking points: there are some things that some of the nation will not accept without an attempt to rebel, if they feel that rebellion stands a chance of success. If circumstances arise in which some of these things must be done in order to bring the social structure into harmony with the needs of the time, and if the elements hostile to them are strong enough, civil war ensues; and civil wars, when they do come, are apt to be even more bestial than wars between the armies of rival nations. Even so, the previous existence in a high degree of the spirit of liberty and mutual forbearance will tend to make civil conflict less bestial than it would have been otherwise; and this will be well, provided only that it does not so weaken the will of the upholders of democracy as to paralyse their action in the moment of crisis. That this need not happen is a fundamental part of the social democratic faith: that it can happen, the history of social democratic parties shows all too plainly.

Forms of Parliamentarism and Party Systems

There is, moreover, another danger. The spirit of mutual tolerance and accommodation finds its natural expression in a

'more-than-one-party' system of government. Where there are, by tradition, only two main parties, changing places from time to time as Government and Opposition, each party is bound to be made up of a number of widely different elements. In Great Britain, it is part of the political tradition that one of these parties should be, in general, more 'progressive' than the other, though both may contain both progressive and reactionary elements. In the United States this has not been so, mainly because of the absence both of an hereditary aristocracy to form the nucleus of a conservative party and of a politically united working-class movement to form the nucleus of a progressive party. There has been, accordingly, a distribution of progressive and conservative elements in both parties; for the one clearly articulate class, the capitalist employers, did not need to form a single party machine, having neither a landed aristocracy nor an organised proletariat to contend with for the possession of power. The American parties therefore have stood less for consistent policies than as vessels into which, from time to time, particular policies could be poured; and American political opinion has expressed itself as a continuous force rather through pressure groups acting upon both parties than in the parties themselves. The effect of this is much more conservative than that of the British two-party system; for it puts the most formidable obstacles in the way of any general change of structure or policy, as distinct from particular reforms. In order to achieve any real transformation of American society, it would be necessary for the radical forces to throw their entire weight on the side of one of the two parties, to capture it completely, and to convert it into an instrument of a consistent policy unamenable to any pressure groups except those on the radical side. This, as recent American history shows, is a feat beyond the strength of the radicals until they have further consolidated and reinforced their influence in the economic field—and it may take another convulsion as unsettling as that of the early 'thirties to make this even possible.

The British two-party system puts no such formidable political obstacles in the way of radical change. If there is any parliamentary system through which a profound structural change in society can be achieved without social revolution, the British system seems the likeliest. But even in Great Britain the obstacles are big enough—a House of Lords still possessed of dangerous powers of delay, a background power of monarchy of which the limits, in a real emergency, are still unknown, and a legal and judicial structure heavily weighted, by precedent even more than by personality, on the conservative side.

The Case against Coalitions and Proportional Representation

The obstacles are much more formidable where parliamentarism has taken shape, not in a two-party system, but in a system of many parties, each more homogeneous but less inclusive. It is seldom possible, where this many-party system exists, to find any basis for government except in a coalition; and coalitions are weak, except when they are given unity by the necessities of war, less because their leaders differ than because they afford no effective rallying-point for the enthusiasm of their followers. The policy they follow is nobody's policy, and there is no common bond of organised loyalty to make it anybody's policy. Coalitions are therefore singularly ill-fitted, even if their leaders avoid quarrelling, to carry through deep and broad changes in social structure which call for active and loyal co-operation on the part of large numbers of the people. They are usually timid, not only because they cannot agree, but even more because they cannot rely on this bold and loyal co-operation.

The system of Proportional Representation, lauded in many quarters as the perfect expression of the spirit of political democracy, and installed in many countries in the name of democratic parliamentary government, is the most calculated of all systems to lead to the continual necessity of coalition, and therewith to timid and ineffective government. The only assumption on which it could possibly be justified is that, as most people are fairly contented with most things as they are, only minor changes are needed, and even these can best be brought about by a process of compromise. On this showing, weakness in a Government is a merit, and a safeguard of liberty: a strong Government is tyranny, even if it has the support of a majority: any imposition of anything is 'dictation,' unless nearly everybody agrees to it. Such a theory might work well in Utopia, if Utopia would only stay put—that is, if the conditions of its being Utopia were not subject to change. It is the most disastrous of all theories of government wherever societies are faced with the need radically to transform or to adapt their institutions in order to render them compatible with the conditions of a shifting environment.

P.R. in Disunited Societies

The underlying assumption of Proportional Representation and of the many-party system to which it lends support is that no *general* change is needed in the basis of a society's institutions and that such changes as may be needed will be *particular*, and of such a nature as to be capable of being made with a near approach to consent, at any rate in the accomplished fact. It is true that the

many-party system can exist, and can be fostered, by P.R., where these conditions are absent. A country may be so divided into a number of conflicting groups and sections as to be incapable of working constructively as a unit, or of rallying even a temporary majority behind any substantial measures of reform. This is most likely to happen where a State is made up of a number of separate national groups, not voluntarily but by compulsory union under a single dominion; and it reaches its height where religious differences are also present and cut across national or racial groupings. Where there exist side by side class parties, national parties, national sectarian parties, and perhaps other combinations, the art of government is bound to resolve itself into a sort of juggling, and no fundamental issue can be successfully faced unless most of the groups are relatively unimportant, and one or two of them are in practice strong enough to dominate the course of affairs. P.R. is exceptionally unsuitable for societies of this kind, unless their differences are really secondary, and are underlain by a general sentiment in favour of unity. Indeed, societies which are divided in this complex way and lack this underlying sentiment are not really societies at all, except by force, and are incapable of being well governed under any system.

The Social Foundations of Parliamentary Government

Even where two parties preponderate, as in Great Britain and the United States, the institutions of parliamentary government can work effectively only as long as there exists a large measure of practical agreement about the basis of social relations. The parliamentary method implies that, even if *general* changes are to be attempted in this basis, they will be introduced and discussed *piecemeal*, and not all at once. It implies a brake on the pace of change, the power of this brake depending on the forms of parliamentary procedure, which determine how many major bills can be got through Parliament in any given space of time—say, the normal period between general elections. It implies further that, though a party desiring to speed up the pace of legislation may modify parliamentary procedure with this end in view, the essential character of Parliament as an agency for public debate on all new departures involving any question of principle will not be altered. Free, though not unlimited, debate is of the very essence of Parliament; and only the simulacrum, not the substance, of parliamentarism can exist without it, e.g. in the Reichstag in Nazi Germany.

Now, debate, in any real meaning of the word, can proceed only on common assumptions. Oration and counter-oration can

of course be made under any conditions—even under those in which every speaker is inaudible because of the clamour set up by his opponents. Debate cannot be held except when each side is prepared not merely to listen but also to pay some attention to what the other says. One cannot, however, pay such attention unless one has at any rate something in common with the other side. British parliamentary debate has been, on the whole, a real process because there has been a good deal in common on most issues and at most times between the disputants. The Irish Nationalists were a factor which the Parliaments of the nineteenth century could never assimilate precisely because this condition was lacking.

The common basis is plain enough when Parliament is debating a Factory Bill, a measure of social insurance, or the Budget. There may be strong disagreements; but it is, in these days, a common assumption that there must be factory legislation, social insurance, and a budget not utterly different from those of previous years. It is not so easy to see, but it is nevertheless true, that the common basis exists even when the question is whether the coal-mines or the Bank of England should be nationalised. The opponents of such measures do not and cannot for the most part proclaim on principle that nothing ever ought to be nationalised; for they have themselves quite recently nationalised the wholesale distribution of electric current, the London passenger transport services, broadcasting, and the ownership of the coal measures. If these things, why not others? The question therefore becomes finally one of expediency and not of principle for the Tories, even if they start with a strong bias against nationalisation; and it is also a matter of expediency for Socialists, who do not propose to nationalise everything, even if they start with a bias in favour. I know that both sides are apt to find this an irritating way of stating the position; but that does not mean that it is untrue.

Supposing quite a number of industries had been nationalised, each after parliamentary debate, how different would the life of the British people be? In my view they would be better off, but their ways of living would not necessarily be altered in any fundamental respect, and there would not necessarily be any great change in the class-structure of British society. The tendency would, I feel sure, be towards both fuller employment, with higher production, and more even distribution of incomes; but, if we assume, as we should, compensation for the displaced owners, no dramatic process of dispossession would have ensued. Nor would it, even if nationalisation were extended to all major industries, and taxation were deliberately used both to reduce the

real value of large unearned (and to a less extent of large earned) incomes and to cut down the possibilities of inheritance of large fortunes. There would be a gradual advance towards equality, and inequality would come to represent increasingly difference in service and decreasingly difference in possessions; but there would be nothing that would enforce a sudden and large change in social habits on any considerable section of British society.

Two Kinds of Social Revolution

This is precisely what the Russians have in mind when they refuse to recognise such gradual processes of change as having anything really in common with Socialism. For them, Socialism did mean a sudden and radical transformation of the very foundations of living, not only for one class, but for all. It tore the old social order up by the roots and replaced it by another. Even so, it did not of course utterly eradicate the old; for, as we have seen, much of the present of the Soviet Union involves forces and habits taken over from its past and altered rather in their applications than in their fundamental character. But the uprooting was comprehensive enough to compel nearly everyone to live a radically different kind of life—even the peasants, when the delayed processes of agricultural collectivisation had been carried into effect.

The social revolution in Russia had to mean this, because the life of every class in the old Russian society was fundamentally unsatisfying. Russia needed a comprehensive change in its entire basis of living. But does Great Britain, and do most of the 'Western democracies,' need such a change? The answer, I think, is clearly that they do not. The economic changes needed in them are large, and involve quite extensive social transformations; but they are not of such a nature as to require the British or other 'Western democratic' peoples to tear their habits up by the roots and set out to make for themselves an utterly new way of life.

Let me try to illustrate what I mean. A Socialist Britain would make an end of slums and overcrowding; but the new settlements which it would create would not be so very different from those in which the better-off workers already live. It would make an end of the traditional great 'country houses' and 'town mansions,' as private residences for the rich; but the places to which their displaced inhabitants would move would be much like houses already inhabited by the majority of 'gentlefolk.' It would raise the minimum standard of living for the poor; but it would not, because it could not, raise it above a level at which a large part of the population, including many workers, is already living. It would not involve any great change in dress, or in behaviour of

the members of one class to those of another in public places, because in these respects great changes in the direction of assimilation and equality have already occurred. In short, it would not greatly alter the general pattern of living, except by raising the average level and eliminating the extremes. It would involve a great levelling-up in the fields of education and culture, and therewith much greater equality of opportunity irrespective of social origins; but this change, though immense, would not upset the basis of society, but would rather help to ease the transition.

The Russians have found it hard to realise that Western Europe, as far as it has been effectively parliamentarised, neither needs nor can possibly have a social revolution in the all-embracing Russian sense, because a considerable proportion of its peoples already enjoy in substantial manner many of the social advantages which, in Russia, only comprehensive social revolution could have brought about. I do not mean that the Western peoples enjoy all of these advantages, or enough of those they have, or that their enjoyment is not marred by other elements in West European society: I do mean that the fact that these societies are 'capitalist' does not imply that they are utterly evil, or that their inhabitants have not progressed.

The Social Problem of Germany

The Russian failure to appreciate this has been the more natural because right in the heart of Europe there has been set, up to 1945, a country advanced in economic and social techniques and possessing many of the appearances of parliamentary democracy (until 1933, when they were violently swept away), which has nevertheless never for a moment really accepted the implications of parliamentarism. Germany, up to 1918, was plainly not a democracy of any sort, but a mixed realm of autocracy, militarist aristocracy, and capitalist imperialism, using certain parliamentary-democratic instruments, but conceding to them no real power, and maintaining socially a way of life which was fundamentally antagonistic to democracy. Parliamentarism is fully consistent with the existence of class-distinctions and of economic and social privilege; but it is, in its modern form, inconsistent with *caste* as a dominant force in social life. Germany's system up to 1918 was essentially a *caste* system—above all in Prussia, which had not even the shadow of democratic political institutions that existed in the federal system of the Reich as a whole. After 1918 the Germans suddenly went over to a highly democratic political constitution; but the leaders of the German

Revolution did this with no attempt at all to destroy the economic and social foundations of the caste system in German life. From 1918 to 1933 the political institutions of Germany were in flat contradiction both to the economic institutions and to the character of social life. That, of course, was why they were so easily overthrown. Germany in 1918 needed a social as well as a political revolution; but the German Socialists, themselves under the spell of the caste system, shrank back from the attempt to overthrow it. The junkers were left in undisputed possession of the great estates; the *Reichswehr* was allowed to continue the traditions of the Imperial Army; reactionary judges and civil officials were left in office; the great imperialist industrialists retained all their power, and were even allowed to strengthen it during the post-war inflation. There was no social revolution in Germany, though social revolution was plainly needed. The Russian policy of the 'twenties, aiming at world revolution, was really aimed primarily at bringing about in Germany the social revolution that had failed to happen in 1918.

Germany did need a social revolution. But there would have been no need for the German Revolution, had it taken place, to be nearly so comprehensive as the Russian Revolution had to be in order to achieve success. For the revolution which Germany did need, over and above the political, was social rather than economic, in the sense that its economic aims could have been achieved if the social system, including certain economic factors in it, had been radically changed. What was needed was a thorough eradication of the caste system, which was not by any means exclusively economic in its roots. A break-up of the army caste, and the creation of a new democratic army; a break-up of the old caste of judges and civil officials, and its replacement by a democratic legal and administrative controlling machine—these were fully as important as the destruction of the great junker estates and the curbing of the powers of large-scale capitalism with its gigantic trusts. All these things could have been done without any such change in the ways of living of the main body of the German people as was involved for the peoples affected in the Russian Revolution, for the simple reason that Germany, being an industrial country, had been compelled to concede to its wage- and salary-earning classes general conditions of living not vastly different from those which existed in the parliamentary-democratic countries. The ordinary German would not have had greatly to change his daily habits in order to achieve all the social revolution that was required; but he would have had to enforce a very great change of habits on a considerable, influential, proud

and tough minority, which would have fought bitterly against the change.

Thus Germany stood, and continued to stand up to Hitler's victory, in an intermediate position between Russia and the Western parliamentary countries. Its *caste* structure resembled Russia's, and called for Russian measures of liquidation; its *political* structure, especially in Prussia, called for similarly drastic change; its *economic* situation was a mixture of Eastern and Western elements, calling for drastic destruction of some parts but only for reform of others; and the *ways of daily living* of *most* of its people were much more like the ways of the West than like the Russian ways. The Russians saw the resemblances to their own situation, and ignored the differences: the German Social Democrats saw the resemblances to the West, and tried to build upon them, ignoring the Eastern qualities in the German system, which compassed their ignominious collapse.

This midway position of Germany has been, throughout the period since 1918, the great barrier against mutual understanding between the Soviet Union and the Socialists of the West. The danger is that it may become so again; but the underlying conditions have been so radically altered by Nazism that the problem no longer exists in its old form. Germany to-day does stand in need, not merely of the kind of revolution that it needed and did not get in 1918, but of a comprehensive change in its national habits of living. Nor is there any question of Germany carrying out such a revolution as it now needs unaided, or by constitutional means; for there is no constitution, and the future institutions of the Reich are recognised as being a matter for determination by the German people only within conditions laid down by the United Nations.

The Foundations for a New Germany

The danger therefore takes a new form—that of rival attempts by the Soviet Union and the Western countries to remodel German institutions on the pattern of their own, guided less by German needs than by their own conceptions of what is good for themselves and therefore, they suppose, for others. It is, however, sufficiently clear from what I have written already that there is, and can be for some time to come, no possible basis in Germany for a parliamentary régime; for there is no basis of common ideas and habits on which debate can rest and the business of living proceed smoothly while the necessary institutions are being built up. The Soviet system, with its single mass party as the exponent of a comprehensive revolutionary creed, has great advantages

over parliamentarism in this respect. It requires no common basis of accommodation, such as parliamentarism presupposes: it does not proceed by the method of free debate; and its pace of change is not subject to the brake of parliamentary discussion and enactment. Instead, it seeks only a *sufficient* basis of agreement—that is to say, agreement among enough people to make their will effective—about the general policy to be pursued; and it uses this sufficient power to suppress hostile groups and opinions, without any save purely tactical attempts at conciliation. Debate it tolerates only within the strict limits of what is called 'democratic centralism,' under which a matter may be discussed *ad lib.* as long as the party machine regards it as an open question, but debate must close down, or be restricted simply to detailed means, as soon as the appropriate line of policy has been authoritatively settled.

However much such a procedure may be regarded in the West as fundamentally undemocratic, something very much like it is, I think, going to be indispensable in building up the institutions of the new Germany. It may be possible to endow Germany with a shadowy form of parliamentarism and with all the apparatus of free debate, as long as Germany is not really self-governing, but is acting under foreign orders, so that debates turn not on rival policies but only on rival ways of executing policies prescribed from outside. It is conceivable that, under very wise external supervision, these subordinate institutions of debate and fulfilment might develop in the German people the qualities of unity and mutual accommodation needed for the working of a real parliamentary-democratic system. But, for this to happen, the wisdom of the foreign rulers would have to be very great—and it is not easy to expect great wisdom from a condominium of Powers which are themselves in profound disagreement about the road to political salvation.

Key Importance of the Social Factors

The only real foundation for a successful handling of the German problem is a recognition that the nature of social revolution is not one and the same for every country, irrespective of its past and of its present state, but differs according to the character not only of its economic or political but also of its social institutions. In all three spheres, the nature and extent of the transformation that is called for may differ from country to country; and the extent and character of the *social* changes that are needed are matters of the most profound importance in determining the strategy of the radical groups and parties. For it is social, rather

than political, or even economic, change that calls upon men to change their most deeply rooted habits of living, and in doing so sets up the most far-reaching psychological reactions. It is never wise to press for any more change in the social foundations, as distinct from the political and economic foundations, of living than is really necessary in order to achieve basic ends, precisely because of the strength and intractability of the psychological reactions that such changes call into play. The need for social change may be so great that these risks have to be faced; but happy are the countries which need not face them in their more formidable shapes. It is fatal to refuse to face the danger when the dominant social forces are of such a nature as to make hay of political and economic changes unless they are destroyed; but it is necessary to recognise as an inescapable truth that the issues cannot in such circumstances be faced by parliamentary means or without resort to highly authoritarian methods of government.

PART THREE

THE CHANCE OF A JOB

CHAPTER I

EMPLOYMENT AND MIGRATION

THIS PART OF MY BOOK deals with a question which not one of us, whatever our positions and prospects, can afford not to understand, unless we are prepared merely to take what comes to us, without any attempt to play a part in shaping the course of events. I have called it *The Chance of a Job*, because the chance, whoever you are, of being able to enjoy a secure and decent living depends not only on your own prowess and will to give of your best, but also on the degree of skill and common sense with which the affairs of the whole community—and indeed of the whole world—are organised and managed. The most skilled and industrious shipwright or cotton operative or coal miner was not saved after the last war from the ruin of his household and his happiness if the shipyard or the mill or mine on which his livelihood and that of his neighbours depended was closed down and there was no other employer at hand who wanted his services. Even men of high technical training or organising capacity were left to walk the streets if there happened to be a surplus, in relation to the shrunken demand, of their particular type of expertness. They endured this, after the last war, with all the misery that it entailed; but their children, I hope and believe, will not be minded to endure the same thing over again. They will not be content merely to say that it seems absurd that men and women should be left to rot in idleness when the product of their labour is plainly needed: they will insist on action to prevent this. But what action? They must know the appropriate measures, at any rate in outline, in order to demand them with effect; and that outline knowledge —and no more—it is the purpose of this section to give, as far as it is concerned with the maintenance of what is called nowadays 'Full Employment,' and used to be called 'The Right to Work.'

What we are concerned about all through these sections, I take it, is the great question of riches and poverty, of our collective power to create wealth in abundance and to get it distributed in better proportion to human needs, and of the best practical ways of organising these things so as to avoid both waste and misdirection of effort. We want to get rid of unemployment and to

manage our industries and our common services better, in order both to have a bigger cake to divide and to divide it in such a way that no one shall go short of the plain requisites of decent living. We want this for ourselves, but not for ourselves only; for it is also, I hope, part of our purpose to put an end, as far as we can, to the dire poverty which is still the lot of the greater part of mankind, and to the disturbing insecurity which besets many even of those whose normal incomes place them well above the basic 'poverty line.' We are coming to understand that we cannot hope to have security or property for ourselves, unless we set out, to the best of our powers, to help other peoples to win them too.

The Scourge of Unemployment

This discussion begins with the problem of *employment*, not because employment is an end, but because hitherto *unemployment* has been a cause both of acute suffering for those out of work and of an appalling waste of the means of creating wealth in a world still ridden by poverty. Unemployment is a disaster not only for those who experience it, but for us all. It means lowering the standards of living of those who are employed in order to provide for the maintenance of those who are not. It means keeping the world as a whole, and every country in which it exists on any substantial scale, unnecessarily poor; and the existence of unemployment in one country breeds unemployment in others, because the whole world is bound together by the economic bonds of trade and exchange. Where one country, because of unemployment at home, cuts down its imports, workers in the exporting industries and occupations of other countries are thrown out of work. In January, 1933, when the Great Depression of the inter-war period had reached its worst, the International Labour Office reckoned that, in the nineteen European countries about which it had some information, there were about 13,600,000 persons out of work, or more than one out of every five persons covered by the returns. The industry of the world was thus, in 1932–3, failing to use at least one-fifth of its normal productive power. In the United States, industrial production fell off, between 1929 and 1932, by nearly half; in Germany by about the same; and even in Great Britain, which fared better than most countries, by 17 per cent. No wonder there had to be a 'New Deal' in America: no wonder, in default of a new deal by the former rulers of Germany, the Nazis were pushed into power: no wonder, all over the world, there was unrest that prepared the way for war.

'Concealed' Unemployment in Peasant Countries

Nor did the industrial countries stand alone. There was distress at least as great in the countries which live mainly by agricultural production. Large farmers usually meet a depression in much the same way as industrial employers—by discharging workers. But a large part of the earth's surface is farmed, not by capitalist farmers, but by small farmers or peasants, who employ little or no hired labour. When things go wrong with them, owing to a decline in the demand for their produce, the chief result is not unemployment; for the small farmer cannot sack himself or his family. He and his remain on the land, but suffer a devastating fall of income. They do not appear in the unemployment statistics of any country; for they are not unemployed, in the sense in which the word is ordinarily used. They remain crowded on the land—even where it cannot offer them the means of decent living. Nay more, their numbers are often added to at such times by the back-flow of members of peasant households who had left the land for the towns and return to live off the land somehow when town industries turn them away in times of trade depression. In these bad times, the peasant farmer, where he can, takes to eating his crop instead of selling it, and defaults on his debts. But many small farmers and peasants produce crops which they cannot consume themselves—cotton, or sugar-beet, or wool, for example; and even where they can consume what they have produced, they are left without money to buy other things that they need, and are in many cases liable to be turned out of their holdings when they fail to meet their creditors' claims.

If the peasant cannot buy, the industrialist cannot sell to him. The poverty of farmers and peasants reacts on the towns, where employers discharge more workers and cut down production right and left. Urban unemployment and rural poverty go together, and must do so as long as a great part of the world's trade consists of exchanges between agricultural products and manufactured goods.

Even this is not the end. In normal times, there is, in developing countries, a continuous shift of workers from agriculture to other occupations. The faster a country develops in wealth and skill, the more rapidly can it reduce the proportion of its people who must be employed in producing primary products.[1] Of course, this may not happen in a particular country which specialises on

[1] Primary products are those produced by agriculture, fishing, mining and quarrying, as distinct from those of secondary industries, which work up agricultural or other materials, and of tertiary industries, such as transport, distributing and other services.

producing primary products for export, though even in such countries it usually happens to some extent. Over the world as a whole it is bound to happen, because, as total income per head of population rises, a smaller proportion of income is spent on food, and more on manufactures and on services, such as distribution, doctoring, education, amusements and travel. Accordingly, in normal times, developing countries provide an outlet for the increasing populations of their rural areas in the towns; or, when this does not occur on a sufficient scale within a single country, there is migration to countries in which productivity is higher and openings exist for more labour than is available from the native population.

The Decline of Migration

During the period of economic calamity between the two World Wars, industrial development was slowed down over a large part of the world, and in many areas migration almost ceased. During the decade from 1901 to 1910 the United States was receiving immigrants at the rate of nearly 900,000 a year, of whom over 800,000 came from Europe. Even in the 1920's total immigration into the United States was still running at the rate of nearly half a million a year. But in the 1930's, during and after the Great Depression, total immigration averaged under 50,000 a year, and was almost wholly offset by emigration of aliens returning to their own countries. Much the same thing happened elsewhere: Canada, Australia, New Zealand all ceased to receive immigrants in appreciable numbers. Even in the Argentine the number of immigrants fell from 140,000 in 1929 to an average of 31,000 in the 1930's. Emigrants from Poland numbered 243,000 in 1929, but averaged only 64,000 a year in the 'thirties. Emigrants from Italy fell from 150,000 to 80,000. These are gross totals, which were largely offset by the numbers of returning immigrants. For the years from 1932 to 1936 Poland had a total outward balance of under 20,000, and Italy of 73,000, or 4,000 and 15,000 a year. The only country still receiving immigrants on any considerable scale in the 'thirties was the Union of South Africa, with an average of well over 100,000 a year. Great Britain, which sent out a net balance of 76,000 emigrants in 1929, was receiving an annual net balance of immigrants of over 40,000 between 1931 and 1937.

This is a dramatic reversal of earlier trends. During the hundred years from 1821 to 1920 over 33 million people immigrated into the United States alone, and nearly 30 millions of them came from Europe. In the decade 1901–10, the last before

the first World War, the United States alone was receiving annually 215,000 immigrants from Austria-Hungary, 205,000 from Italy, 159,000 from Russia, 53,000 from Great Britain, over 50,000 from Scandinavia, and about 34,000 each from Germany and Ireland. Only this outward movement of population made it possible for the economically backward areas of Europe to carry on without disaster with their primitive methods of production. In a sense, it was the possibility of emigration that enabled them to endure their primitiveness. Without it, they would have had either to find the means of industrial development or to accept a falling standard of life. When, after the first World War, the outlets for surplus population—surplus, that is, given the existing methods of production—were closed, standards of living did fall. If we are to regard it as unlikely that migration from Europe on anything like the pre-1914 scale will be resumed, we must make up our minds that the raising of agricultural standards and the development of industrial production in the backward countries, not only in Europe but all over the world, are the only alternative it is permissible to contemplate. The other alternative, the sweeping clear of these countries by infant mortality, pestilence and war, we have no right to contemplate at all. There has been enough of it since 1939 to give us fair warning of what it is bound to mean.

The right to move is one thing which, to the fullest extent to which it can be made compatible with the internal needs of each country, we must endeavour to bring back to the world. But the right not to be forcibly moved is of at least equal importance. We have seen, in our experience of the problems of domestic employment in Great Britain, what upheavals are caused by the attempt forcibly to uproot populations from districts in which industries have decayed and to transfer them elsewhere against their will. We are seeing to-day what immensely greater upheavals are caused by attempts forcibly to remove whole populations from their homes, in order to make easier the formation of nationally homogeneous States or to consolidate the annexation of territories deemed suitable for transfer from vanquished to victor. I am not saying that such measures are never justified—only that they should never be embarked upon without full counting of the human costs. In general, the planning of human affairs should be so done that as far as possible movement from place to place should be easy and voluntary, not merely for a special class of tourists or for the well-to-do, but for anyone who, on balance, thinks it an advantage to move either to a new country or to a new district within a country. But it should rest also on the

Migration into and out of Certain European Countries, 1929–38

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Poland										
Emigrants	243·4	218·4	76·0	21·4	35·5	42·6	53·8	54·6	102·5	129·1
Immigrants	104·5	101·1	87·7	38·6	18·8	34·0	53·4	43·7	40·8	93·6
Balance	138·9	117·3	−11·7	−17·2	16·7	8·6	0·4	10·9	61·7	35·5
Italy										
Emigrants	149·8	280·1	165·9	83·3	83·1	68·5	57·4	41·7	59·9	79·8
Immigrants	115·9	129·0	107·7	73·2	65·8	49·8	39·5	32·8	35·7	42·7
Balance	33·9	151·1	58·2	10·1	17·3	18·7	17·9	8·9	24·2	37·1
Czechoslovakia										
Emigrants	37·8	48·8	29·2	19·0	13·9	12·0	10·7	12·1	23·2	8·9
Immigrants	4·6	4·7	6·3	5·5	3·6	2·1	1·8	1·4	3·3	2·3
Balance	33·2	44·1	22·9	13·5	10·3	9·9	8·9	10·7	19·9	6·6
Yugoslavia (including aliens)										
Emigrants	37·6	39·0	15·4	9·1	9·7	14·9	13·4	12·5	19·7	20·1
Immigrants	6·0[1]	15·0	18·2	14·2	7·3	6·7	5·9	5·2	6·8	16·3
Balance	—	24·0	−2·8	−5·1	2·4	8·2	7·5	7·3	12·9	3·8

[1] Incomplete.

Migration into and out of Certain Non-European Countries, 1929–38

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
United States										
Immigrants (aliens only)	268·9	180·3	43·3	28·0	23·9	34·4	34·9	41·6	62·6	76·1
Emigrants (aliens only)	53·2	62·9	89·6	97·5	51·7	39·2	36·5	30·5	24·7	25·0
Balance	215·7	117·4	−46·3	−69·5	−27·8	−4·8	−1·6	11·1	37·9	51·1
Canada										
Immigrants (aliens only)	165·0	104·8	27·5	20·6	14·4	12·5	11·3	11·6	15·1	17·2
Emigrants (no figures)	—	—	—	—	—	—	—	—	—	—
Australia										
Immigrants (Nationals and aliens)	31·7	17·5	9·4	9·9	10·7	11·8	12·6	12·7	16·3	19·5
Emigrants (Nationals and aliens)	21·6	27·4	21·5	14·5	12·1	12·1	11·4	11·4	11·2	11·4
Balance	10·1	−9·9	−12·1	−4·6	−1·4	−0·3	1·2	1·3	5·1	8·1
New Zealand										
Immigrants (Nationals and aliens)	6·3	6·9	3·2	1·6	1·8	1·5	1·9	2·8	4·4	6·5
Emigrants (Nationals and aliens)	3·1	2·4	2·7	2·9	3·0	3·6	4·3	4·0	4·0	3·9
Balance	3·2	4·5	0·5	−1·3	−1·2	−2·1	−2·4	−1·2	0·4	2·6
Union of South Africa										
Immigrants (aliens only)	87·8	100·0	95·4	80·1	83·2	97·6	111·5	136·5	129·0	158·2
Emigrants (aliens only)	2·2	2·7	2·5	2·8	1·9	1·4	1·4	1·9	2·1	2·3
Balance	85·6	97·3	92·9	77·3	81·3	96·2	110·1	134·6	126·9	155·9

MIGRATION INTO AND OUT OF CERTAIN NON-EUROPEAN COUNTRIES, 1929–38—*continued*

	1929	*1930*	*1931*	*1932*	*1933*	*1934*	*1935*	*1936*	*1937*	*1938*
Argentine										
Immigrants (aliens only)	140·1	124·0	56·3	31·3	24·3	27·6	35·0	35·6	41·5	37·7
Emigrants (aliens only)	58·4	59·7	53·7	43·4	35·1	27·1	19·8	17·3	14·3	12·8
Balance	81·7	64·3	2·6	−12·1	−10·8	0·5	15·2	18·3	27·2	24·9
Brazil										
Immigrants (aliens only)	96·2	62·6	27·5	30·5	46·1	46·0	29·6	12·8	34·7	19·4
Emigrants (aliens only)	41·2	50·2	36·7	22·3	16·9	19·4	21·3	48·3	18·1	11·5
Balance	55·0	12·4	−9·2	8·2	19·2	26·6	8·3	−35·5	16·6	7·9
Palestine										
Immigrants (aliens only)	6·6	6·4	5·5	11·3	32·0	44·1	64·1	31·7	12·5	15·3
Emigrants (aliens only)	1·2	1·6	1·1	—	—	—	0·6	1·1	1·3	1·3
Balance	5·4	4·8	4·4	(10·3)[1]	(31·0)[1]	(43·1)[1]	63·5	30·6	11·2	14·0
India										
Immigrants (Nationals only)	139·5	167·8	152·6	151·1	112·8	64·1	71·5	70·2	78·6	106·6
Emigrants (Nationals only)	138·9	83·1	32·4	20·6	10·8	130·9	23·5	10·5	62·6	14·4
Balance	0·6	84·7	120·2	130·5	102·0	−66·8	48·0	59·7	16·0	92·2

[1] Estimated.

Migration into and out of Great Britain, 1929–38

	1929	*1930*	*1931*	*1932*	*1933*	*1934*	*1935*	*1936*	*1937*	*1938*
Immigrants										
Nationals	56·2	66·2	71·4	75·6	59·3	49·8	46·2	47·2	42·6	40·6
Aliens	12·9	13·7	14·6	12·9	12·7	14·3	15·3	20·7	27·6	1·6
Total	69·1	79·9	86·0	88·5	72·0	64·1	61·5	67·9	70·2	42·2
Emigrants[1]										
Nationals	143·7	92·2	34·3	27·0	26·3	29·2	29·8	29·8	31·8	34·1
Aliens	1·6	1·5	1·4	1·1	1·2	1·1	1·1	1·2	1·4	1·6
Total	145·3	93·7	35·7	28·1	27·5	30·3	30·9	31·0	33·2	35·7
Balance	−76·2	−13·8	50·3	60·4	44·5	33·8	30·6	36·9	37·0	6·5

[1] Only intercontinental.

principle that not without the most unescapable reasons should men and women be uprooted against their wills; for community is a plant that grows not without much tending, and the purpose of planning is in the last resort nothing else than the making of communities able to live richer and happier lives.

Thus, the problems of employment and production which we are setting out to study are human, and not merely technical problems. We want, not merely to get men and women usefully employed in meeting one another's needs, but to get them happily employed as well. We want to get them working together under conditions which are socially as well as economically satisfying: we want them to produce not only goods and services but also a social environment in which they can live happily and at ease. That is why the problem of full employment is insoluble in merely technical terms: it involves not the quantity of jobs only, but their quality too, and not merely their individual quality as jobs, but their social quality, dependent on the conditions of working and living together under which they are carried on.

If this qualitative aspect of the problem finds but little expression in this section of my book, that is not because I am unmindful of it. Most of it comes in better when I am considering employment not by itself but in relation to the other factors of our communal life—to town and country planning, to politics, local and national, and to the relations between the various grades and groups on whose co-operation economic efficiency depends. Have no fear but that we shall come back to it, even if we seem to be making all too little of it in these chapters.

CHAPTER II

ON THE MORROW OF THE WAR—THIS TIME AND THE LAST

I SAID AT THE BEGINNING of this study that, for as far as it is possible to look ahead, there ought to be no shortage of jobs now that the fighting is done and we are settling down to the tasks of peace. Although, as we have seen, total output rises high in time of war, so much of what is made is shot away or blasted to atoms or otherwise destroyed by fighting, bombing, scorching, or the sheer trampling of armies, and so much that remains is of no manner of use in time of peace, that, no matter how high production rises, any big war leaves the world a great deal the worse off in material supplies. While war lasts, the consumers have to cut their consumption of everything they can contrive to do without, in order to release resources for making munitions and other necessary war supplies. Nor does this cutting down of civilian production affect only current supplies. Plant and machinery in every industry which is not regarded as indispensable for the war effort are allowed to run down and to grow obsolete without being renewed or replaced. Accordingly, when war ends there are vast arrears to be made up. Industries want new and better equipment, just as households want new crockery, household linen, furniture, and a host of other things they have not been able to get during the war, and just as individuals need new clothes and other personal possessions. In the technical language of Economics, there is bound to be at the end of any large-scale war a boom in the demand for both 'capital goods' and 'consumers' goods'—including, of course, such 'durable consumers' goods' as houses, production of which almost entirely ceased during the years of war.[1] All the labour that can be made available is needed

[1] The income available in the hands of the community and its members for buying goods and services can be divided into two streams of expenditure. One goes to purchase goods and services which are more or less speedily consumed and enjoyed—finished foodstuffs, clothes, drink and tobacco, fuel, light and current houseroom, tickets for buses, railways, steamships, cinemas and theatres, hotel and restaurant accommodation and meals, schooling, medical attention, and so on. This stream of expenditure is described as 'consumption,' and the goods and services used up in it are called 'consumers' goods and services.' They are consumed in meeting current wants. The other stream goes

to help in clearing up the arrears which have been accumulating; and until the more insistent demands have been met in all the categories of supplies there should be much more reason to fear a shortage of workers than a shortage of work.

Difficulties of Transition

This general statement needs some qualification. In the first place, there are inevitably difficulties of transition when the time comes for changing over from war to peace production. Many factories in all the belligerent countries had been diverted from their normal uses to the making of war supplies; and many workers had been taken away from their normal jobs and forced to master new, quite different trades. By 1945 the British Government and other public authorities were spending as much on goods and services as all private consumers together, although expenditure on private consumption was considerably inflated by price increases due to indirect taxation. Well over four million persons were employed on work for the three main departments concerned with war supplies—not including those working for

to buy 'capital goods' or 'investment goods,' i.e. goods which either are useful for making other goods or services, and not in themselves, or, if useful in themselves, yield up their value only by instalments, over a long period of time. To this second stream belong factory and office buildings, plant and machinery, ships, railway equipment, aeroplanes, power-stations, harbours and docks, roads, schools, houses, and so on. They are not used up at once, but remain in existence to help towards satisfying future wants; and they yield up their value by contributing to the production of useful things, or by being themselves gradually consumed and enjoyed over the entire period of their effective life until they are either worn out or scrapped as redundant or obsolete. It is sometimes a source of confusion that houses, which seem to be obviously 'consumers' goods,' should be classified as 'capital goods' or 'investment' goods; but a house is obviously a capital good—it can be invested in for letting at an annual or weekly rent. A house is a 'durable good' which yields up its value by instalments over a period of years: the proportion of its value that is used up in any year is 'consumed,' and house-rent is expenditure on consumption; but the capital spent on building a house is fully as much invested as the capital spent on building a factory or a machine. Some economists try to avoid this confusion by dividing goods into three classes instead of two, and making 'durable consumers' goods' a separate class; but this may obscure the fundamental difference between the two streams of expenditure. Another possible classification is into four groups: (*a*) *consumers' goods* for immediate consumption; (*b*) *durable consumers' goods*, such as houses and motor-cars; (*c*) *other capital goods*; and (*d*) *intermediate goods*, i.e. goods locked up in the productive and distributive processes. These last are also 'capital goods' in the sense that they lock up capital in the productive and distributive stages, and are not available for immediate consumption. All these classifications are, of course, merely for convenience; and it is not always easy to say in what class a particular thing belongs. This, however, does not matter, provided that whatever classification is used is adhered to, and that the terms are used consistently in the same senses.

other departments, such as the Ministries of Food and Agriculture. It was bound to take time to get this process of conversion of industry reversed—to clear the factories of the equipment that had been put into them for war purposes and to get the machinery they needed for peace-time production installed; to get their key workers back to them and to re-equip them with an efficient and balanced labour-force; and to re-establish the regular flow of supplies from stage to stage of production where goods need to pass through several successive stages of manufacture under the auspices of separate firms. These things were bound to take time, even where it was only a question of reinstating existing machinery and of getting the old workers back to work. It was obviously bound to take longer where new machines had to be made, or new buildings erected, or old buildings considerably altered, before normal production could be resumed. Moreover, some great modern factories have a very elaborate set-up; and the processes of jigging and tooling in preparation for a new production plan were bound to be spread over many months.

Serious delays in changing over were therefore unavoidable; and in every belligerent country it has been one of the most urgent problems of post-war planning to get industries back to normal production without undue confusion or delay. Whether the delays have been in fact short or long, they have necessarily given rise to some temporary unemployment as war work has ceased in factories which have had then to be got ready for resuming civilian production. This, however, has been a case of workers waiting for jobs not because there has been any lack of effective demand, but simply because the change-over could not be accomplished without some interruption of work.

There is, however, a second possible cause of shortage of jobs, even in a world desperately short of necessary goods and services. However urgently people may want things, they do not, under any economic system to which we are used, get them unless they have money to pay for them. Where need exists without the means of payment, economists speak of a lack of 'effective demand'; and under our present economic system, only 'effective demand' sets the wheels turning, or causes employers to be willing to employ labour. Thus, even in a world sorely in need of all sorts of supplies, employment can be short in any capitalist country if means of payment are short, and men and women can be left to stand idle because no one can see a prospect of profit from employing them.

Such a situation, where it arises, clearly should not be allowed to continue, and can last for any length of time only through a

signal failure of the Government to do its job. It might happen, and be protracted, in a country which found itself at the end of a war plunged into chaos either by civil war or by the dissolution of its government. It might happen, if a country's monetary arrangements had got into such a state of confusion that no one had any confidence in the value of its currency—as happened, for example, in Germany after the last war and in Greece and many other countries under the Nazi occupation. Where such a thing has occurred, it is the business of whatever Government takes control to get the currency into some sort of working order with the smallest possible delay, and to make the arrangements necessary, in accordance with the economic system on which it is working, to ensure both that the available labour is employed and that consumers are supplied somehow with the wherewithal to buy its products. Every country from which the Nazis were driven in 1944 and 1945 had grave difficulties to face, mainly no doubt because of the physical destruction which had been wrought and the loss of key persons which it had suffered, but also because of disorganised currency and the need to improvise the entire machinery of government and economic control afresh, at a time when the hunt was up for war criminals and in many cases fighting was still in progress within the national frontiers and military authorities shared, or disputed, control with the civil Governments.

In Great Britain or in any other country which has neither been occupied by an enemy nor lost control of its economic affairs during the war, no problems of this second order ought to arise. Even in such cases, however, there are apt to occur lesser disorganisations which cause unnecessary delays in changing back to normal forms of production and consumption. If, as fast as the demand for war products ceases, workers had been turned off from the war industries before other industries were ready to take them on, and if after discharge they had been left to exist on 'doles' or benefits which would buy much less than they were accustomed to buy in normal times, the inability of these workers to exercise 'effective demand' for goods and services would have reduced the numbers of hands whom employers carrying on production for profit would have been prepared to engage, and would thus have stood in the way of their own re-employment. It had therefore to be recognised as a responsibility of the Government to maintain at a reasonable level the purchasing power of those who were discharged from the war factories, as well as from the armed services, until they could be absorbed into normal employment; and the Government, by accepting this responsibility, was

actually helping to get industry back to normal working with the minimum of delay.

It could be argued against this view that it would be actually a good thing—except of course for the unemployed—if purchasing power were thus cut down during the period of transition, because there was bound to be for a time a shortage of goods. It is true that, to the extent to which unavoidable shortages did exist, the reduction in the purchasing power of the unemployed might have caused no additional unemployment; for all that could be produced might have been bought up without any demand on their part. It would, however, have been manifestly and grossly unfair to throw the hardship due to such shortages upon those who were discharged from the war factories, or from the armed services, or from civil defence. As long as shortages exist, demand ought to be restricted by some form of rationing and not by depriving a section of the people of its due share of purchasing power.

Shortages of Materials

This consideration, however, brings us to yet another factor that may involve a temporary return of unemployment after war has come to an end. Production can be held up, not only by the need to recondition factories and prepare new jigs and tools, but also by a scarcity of indispensable materials. Where, during the war, stocks of materials have been allowed to run down, it may take time to build them up again, whether they have to be transported from overseas or can be produced at home. Or there may be difficulty in paying for new supplies, as we saw when Lease-Lend was brought to a sudden end in August, 1945. In such cases, the important thing is to make the scarce materials go as far as possible, and to ensure priority in their allocation for the most essential work. State control of essential supplies needs to be maintained for this purpose for a considerable time after the war is over; and pressure from private interests to get rid of it in the name of 'free enterprise' before the need has passed has to be firmly opposed.

The Post-war Outlook

Let us assume, for the purposes of the present argument, that there exist no upset of the currency system, no reduction of discharged workers or demobilised warriors to starvation incomes, no unnecessary delays in re-equipping industry for the tasks of peace, and no more than short-lived shortages of essential materials. Given these conditions, the sheer urgency of the post-war demand, both at home and abroad, with the need to make

up arrears and to replace goods damaged or destroyed added to the ordinary current demands, must certainly result in due course in a boom in the labour market; and this shortage of workers will last at any rate until the more urgent demands have been met. What was reasonably to be expected in Great Britain when the war ended was first, a short period of dislocation in many areas, while war factories were being closed or converted and while workers who had been employed away from their homes were sorting themselves out and returning to their pre-war trades or finding new ones, and then a period of rising production accompanied by continuing shortages, during which the demand for most sorts of labour would be in excess of the current supply, and for some sorts of skilled labour—above all in the building industry —very greatly in excess.

The situation was of course complicated by the sudden ending of the war in the Far East, after plans had been laid in expectation of its lasting for a longer period. The continuance of war against Japan after the collapse of Germany would both have reduced the numbers returning at once to industry from the armed forces, and have involved the maintenance of war production on a considerable scale. It would thus have reduced the magnitude of the immediate change-over, and would have hampered the resumption of civilian production. Transport would have remained very scarce; and there would have been physical shortages of many kinds of materials needed by civilian industries. This would have slowed up the return to normal production; and it would have involved the danger of a boom in prices unless controls had been firmly retained and used until well after the end of war in Asia as well as Europe. In fact, up to August, 1945, the Far Eastern complication cut both ways: it both slowed up the reconversion of industries to the uses of peace and involved stronger pressure upon scarce supplies, with all the attendant risks of profiteering, inflation, and the abuses of the black market. On the other hand, while Great Britain was still at war, even though not in Europe, there was less pressure for the removal of controls and more preparedness to put up with continuing shortages than was to be expected after the return to peace unless the Government took great care to explain to the people the reasons for such shortages as continued to exist.

Actually, the unexpectedly quick end of the Japanese war upset things badly, not only because it threw the plans previously made out of gear, but still more because of the precipitate termination of Lease-Lend by the American Government. It had been expected that Lease-Lend supplies would be gradually tapered

off, in order to avoid dislocation; but the Americans decided to stop them suddenly, on the ground that there was no power to go on with them when they were no longer needed for the defence of the United States—their purpose as defined in the Act of Congress authorising Lease-Lend. The sudden stoppage of supplies was very embarrassing for Great Britain, which had been depending on Lease-Lend for a considerable part of its food supply, as well as for many essential industrial goods. The necessity to pay for food imports meant that there were no dollars available for buying American raw materials, without trenching on British dollar reserves that were urgently needed for meeting the claims of other creditors of Great Britain. These were the circumstances under which it became urgent to secure a large American loan in order to tide over the difficult period while Great Britain was endeavouring to rebuild its export trade on the enlarged scale needed to cover the cost of imports in face of the loss of 'invisible exports' during the war. The long delay before the loan was finally conceded—on most onerous conditions—in July, 1946, was a cause of great difficulties to the British economy. It made necessary the most rigid limitation of dollar purchases that could be reconciled with the food needs of the British people, and with the requirements of materials and machinery for the rebuilding of industry. It called for the utmost possible concentration on pushing up exports in order to meet as large a part as possible of the cost of imports out of current earnings; and it made impracticable any attempt even to begin paying off the vast sterling debts accumulated during the war. Indeed, these debts continued to mount up; and it became necessary to arrange for a large new loan from Canada. The difficulty was aggravated by the world famine of 1946, and by the need for meeting the cost of food supplies that were indispensable for preventing sheer starvation in the British zone of occupation in Germany. I shall discuss in a subsequent section the conditions on which the United States did finally grant Great Britain a loan: here my point is only that the long delay made the position of the British economy in 1946 exceptionally awkward.

What Happened Last Time

These conditions differ widely from those which existed when the first World War ended in 1918. Great Britain at that time still owned large overseas investments; nor were these offset by sterling balances due for repayment. There were debts to the United States; but they were balanced, at all events on paper, by debts owing to Great Britain from European Allies. In the period which

immediately followed the termination of hostilities, the British economy was not held up by any inability to pay for necessary supplies. Nevertheless, then as at the end of the second World War, there was a serious shortage of goods—for the simple reason that over a large part of the world the war had adversely affected production, and in Great Britain industrial capacity had been diverted to war needs and took some time to shift back again and to get back into proper running order. After 1918 the wartime controls were precipitately removed, and profiteering was allowed to develop on a prodigious scale. In other words, the demand was reduced by allowing prices to rise, and there was an unsound boom during which very large windfall profits were made. In 1945 these errors were not repeated. The Labour Government came to office with a clear mandate to keep the controls in effective operation and not to allow the cost of living to get out of hand. Its measures could not prevent a continuing shortage of supplies: indeed, for the reasons already given, the shortage was much more acute than it had been in 1919 and 1920. But its measures did effectively prevent the sort of price-boom which the Lloyd George Government allowed to develop after the first World War, and thus avoided reproducing the conditions in which a short-lived and unreal speculative boom was bound to lead on to a crisis and a slump as soon as the most clamant demands had been met and purchasers began to face the need of squaring their outgoings with their incomes and expectations.

The question to which we are seeking an answer is this. How long are we to expect that a state of shortage—that is to say, of actual demand exceeding the available supplies of commodities—will persist under the policy conditions of 1946 and 1947? The excess of actual demand over supply did not last long after the first World War, despite the acute shortage of almost everything that existed when it came to an end. Within two years of the cessation of the fighting in 1918 the boom had spent its force and a great post-war depression was setting in. The boom lasted through the latter part of 1919 and the first half of 1920; but by the end of 1920 unemployment was beginning to mount fast, and by early 1921 the slump was fully in being. This happened partly because of the adoption of remarkably unwise financial and economic policies in Great Britain and in some other countries, and partly because business men who had been gambling recklessly on the world's need for goods at any price were suddenly brought up short by the realisation that war had left most countries not rich, but desperately poor. The unwise financial policies consisted largely in an attempt, under the influence of

'orthodox' bankers and 'City' interests, to get back to pre-war financial conditions and to a balanced Budget, at no matter what cost to the community as a whole. The element of reason behind this policy was a desire to correct the inflationary forces which had been allowed to get loose, mainly through the mistakes of the Government in yielding to the demands of business men to be allowed to return to 'Business as usual.' Under this pressure, reinforced by the widespread dislike of bureaucracy which war always arouses in most people's minds, the Lloyd George Government ignored the necessity for a carefully planned transition from a war economy to production for the needs of peace. The wartime 'controls' were precipitately taken off; and business men were allowed to scramble for customers as they pleased. Supplies of goods were short, because productive efficiency was low in face of war-weariness and obsolete capital equipment; and accordingly prices rose to fantastic heights as those who had the money competed to get goods and services at any cost. Vast profits were made: there was a fever of speculation throughout the economic system: those who were not well placed for demanding higher incomes were left to go without. And then, when the rush to get supplies slackened off, and it became plain that current prices had forced many classes of goods far beyond what ordinary people could afford to pay, boom swiftly gave place to slump. As soon as prices began to fall at all through shortage of orders, even those who could afford the current prices began to hold off buying in expectation of a further fall. Employers discharged workers on all hands, thus further reducing the demand for goods and services. The speculators who had not cashed in on their gains in time were ruined: wages were drastically cut, and Trade Unions which attempted resistance underwent defeat. And all this happened while there were still vast needs unsatisfied; for during the boom not the most urgent needs, but rather those armed with the greatest command of money, had been met; and, though *employment* had been high, production *per head* (and even total production) had remained low. The boom after the last war was a boom in prices, and not in production; even at its height there were not nearly enough goods to go round, by any standard based on normal human needs.

While this was the situation in Great Britain, and also largely in the United States, most of continental Europe was a great deal worse off after 1918, because its productive power had suffered much more seriously during the war. In most countries, both agricultural and industrial production sank to very low levels and there was little that could be exported to pay for necessary

imports. In addition, the currency dislocation was much worse in France as well as in Germany, and indeed over most of Europe, than it was in Great Britain. Continental Governments, harder driven than ours, had resorted to the printing press to meet their pressing bills; and the more money they printed, the faster prices rose. Indeed, the rise in prices soon outstripped the creation of additional money; for those who had goods to sell raised their prices in anticipation of more money being put into circulation, while those who had money hastened to change it for goods at almost any price before its buying power fell further still. In particular, the money of the countries in which this occurred lost its exchange value abroad even faster than at home; and speculators on the foreign exchanges helped to destroy its value faster than ever. These conditions reacted on the export industries of Great Britain and other relatively stable countries, which stopped sending goods to customers who were unable to pay for them in money and had hardly any goods to send back in exchange. Thus, the bad conditions on the Continent made the slump in Great Britain worse, by throwing out of their jobs coal-miners, steel workers, engineers, woollen operatives, and many other workers who normally produced for export.

Thereafter came a slow recovery, as countries got their currencies into order, restored their productive efficiency, and began both to exchange goods more freely and to re-establish their home markets. But the recovery in many parts of the world never was complete. We have seen that for the entire period between 1921 and 1939, or even if we leave out the disastrous years of the second inter-war slump from 1931 to 1933, the level of unemployment was continuously much higher over the world as a whole than it had been before 1914. There were at all times literally millions looking for jobs and unable to find them; and in face of the plain fact of poverty, implying the need for all that could be produced, the whole capitalist world was persistently wasting productive resources and letting men and women rot away in idleness instead of setting them to useful work.

Comparison

In the second war, devastation has occurred over a greater area and on a larger scale than between 1914 and 1918. The world's *need* for goods and services is even greater and more urgent than it was after the previous war. In the absence of civil wars succeeding to the war of nations, there exists in every country devastated by war a clamant demand for current supplies and for the making good of arrears. This is the position within each country as the

industrial system changes over from war- to peace-production; and it also affects the trade between countries, wherever those which need supplies have, or are lent or given, the means of paying for them. Because of the longer war and the greater dislocation caused by it, the demand for goods needed for the re-establishment of national industries, as well as for meeting current consumers' needs, would have been bound to last longer than the boom of 1919–20, even if nations had conducted their economic affairs in the same reckless spirit of profiteering as they showed after the first World War. In practice, however, most of the belligerent countries were in no situation to behave in this way, even if their ruling classes had wished to do so. Their economic structures had suffered so much damage, and their immediate productive capacities were so impaired, that it was quite out of the question for them not to maintain strict control over supplies of almost every sort, and to plan the work of recovery and the procuring of foreign aid in order to prevent mass-starvation that would certainly have been the prelude to revolution.

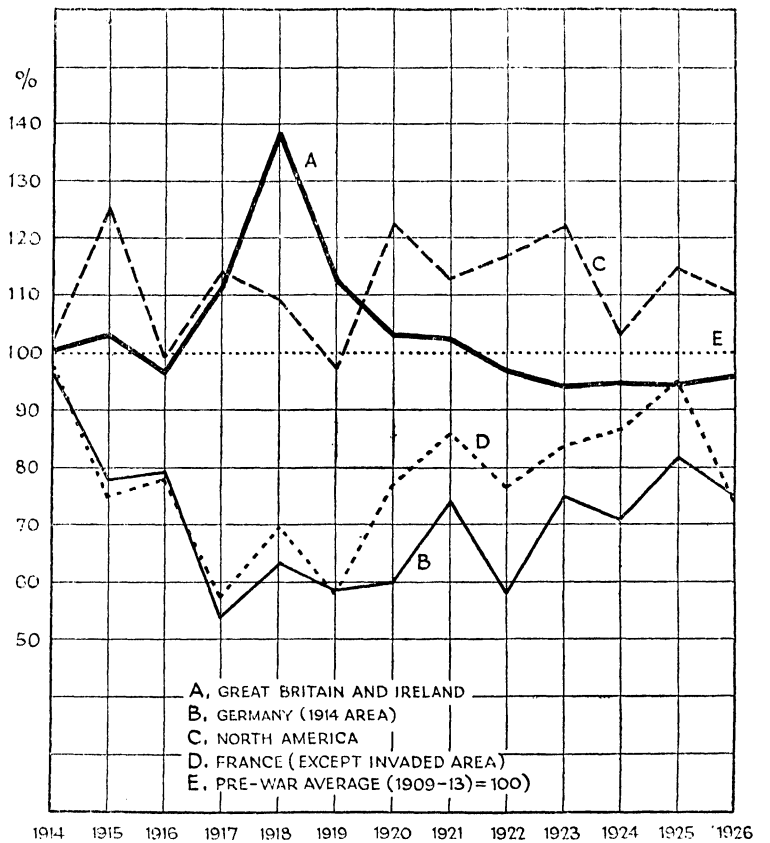
In 1945–6 the only great country that was in a position to have an uncontrolled capitalist boom of the kind that occurred in a number of countries after 1918 was the United States; for whereas most others had been terribly impoverished by war, it had been greatly enriched. There was, of course, in the United States as elsewhere, dislocation accompanying the change-over from war production to peace production, and this involved shortages of goods in relation to demand; but the Americans were huge creditors of the rest of the world, and were in no danger of any serious shortages of necessary supplies. They could have plunged straight into a price-boom very much like that of 1919. Up to July, 1946, they were restrained from behaving in this way by the continued existence of a comprehensive system of price-controls under the Office of Price Administration; and these controls were closely linked to parallel controls over wages. At the beginning of that month, however, the wartime system of price-controls came to an end; and Congress refused to agree to its renewal except in a form so mutilated that President Truman felt compelled to veto the Bill in which the proposed new controls were embodied, on the ground that its provisions were unworkable. Price-control in the United States therefore lapsed in July, 1946; and though control was retained or reimposed in a few cases, including rents, the cost of living and, still more, the level of wholesale prices, rose very sharply during the next few months. Food prices increased especially fast, and outran wages, which continued to be

artificially held down; and in November the Republican victory in the elections made it evident that the United States was heading straight for a complete return to unrestricted capitalist enterprise, with the virtual certainty of a great struggle to come between the forces of Capital and Labour. The main difference between the American situation towards the end of 1946 and that which arose after the first World War lay in the much greater strength of American Trade Unionism, despite its division into rival factions enrolled in the American Federation of Labor and in the Congress of Industrial Organisations. The conflict between these rivals was bitter and was complicated by the position of Mr. John L. Lewis, who, after being largely responsible for founding the C.I.O., had led his United Mineworkers back into the A.F. of L., but continued to follow an independent line of his own. In November, 1946, Mr. Lewis called the soft coal miners out on strike against the Government, which was still in control of the mines. His action was met by an injunction and by the levying of heavy fines on both him and his Union; and the strike was hastily called off, pending an appeal to the United States Supreme Court on the legality of the decision. The use of 'injunctions' against Trade Unions was believed to have been barred by the Norris–La Guardia Act, passed during the New Deal. The Government claimed that this Act did not apply to strike action directed against itself; and there were apart from this many threats that the newly elected Congress, dominated by the Republicans, would enact drastic anti-trade-union legislation. The revival of the 'injunction' procedure, and the threats of new anti-strike laws, led the rival Labour factions to declare their support of the miners; but the calling off of the coal strike was followed by a pause. In the early months of 1947, American capitalism and American labour were facing each other uneasily, and a large scale conflict between them seemed to be in prospect.

Apart from the United States, which can have an inflationary boom at any time if it chooses, with the practical certainty of a crisis to follow, the world at the end of 1946 was in no condition to enter on a period of boom. Inflation, of course, any country can have: indeed, inflationary conditions existed already over a large area. But inflation and boom are not the same thing; for boom connotes at any rate an illusion of prosperity, if not the reality, whereas inflation can exist without any feeling at all that things are going well, and side by side with severe unemployment and widespread distress.

It was, indeed, one of the major anomalies of the world economic situation of 1946 that, whereas an inflationary boom in

America could not give rise to boom conditions, though it might accentuate inflation, elsewhere, such a boom would have been all too likely to aggravate the difficulties of other countries and to retard their recovery, or even plunge them into a condition of



CEREAL PRODUCTION, 1914–26, IN U.K., GERMANY, FRANCE, AND NORTH AMERICA.

crisis. Rapidly rising prices in the United States must reduce other countries' ability to buy American goods; for, even if the prices of American imports rose sharply, this would not suffice to maintain the purchasing ability of other countries in the United States, for the simple reason that they must buy largely on credit in

default of adequate commodities available for export. An American boom would probably reduce American willingness to give credit, by diverting funds to speculation at home and by strengthening isolationist tendencies. An American crisis following on a boom, on the other hand, would mean a sharp fall in imports. It might mean also an attempt to push exports on the world market, in order to make up for the falling off of home demand. But such an attempt would probably mean cutting of prices for cash sales, rather than an extension of credits—unless indeed the Administration set to work to expand foreign credits as part of its counter-depression policy. The one thing that could safely be said was that it was to the rest of the world's interest that the United States should have neither a boom nor a slump, but should maintain a steady and orderly expansion, lending enough abroad to counteract its export surplus and absorbing more imports as fast as larger supplies could be made available.

This amounts to saying that, whereas, after 1918, the conditions requisite for a temporary boom existed in a number of countries, in 1946 they existed only in the United States, with the consequence that American economic policy was the largest single determinant of world recovery and of the world's power to attain economic stability. This being the position, no close analogy can be drawn between the conditions of 1919 and those of 1946. It may nevertheless be helpful to see what was the general course of economic events after the first World War, and how quickly nations were then able to get their productive systems back into tolerable working order.

World Production after 1918

Much had been said during the war years, 1914–18, about the great increase in productive power that had been revealed by the mobilisation of resources for war purposes and about the higher standards of output that could be confidently expected for the future. Figures had been cited showing the great increases in production that had actually been achieved in the war factories, and general conclusions had been drawn with too little allowance for the difficulties in the way of transferring these increases from war to peace conditions. What was said about the increases of output in war factories was of course perfectly true, but it was one thing to secure high output in producing largely standardised commodities for war use and quite another to retain these advances when industry was turned over to producing for the much more diversified demands of peace. Moreover, as we have

seen, capital in the form of new instruments of production had been applied during the war years almost exclusively to industries making things directly for war needs, and the equipment of the industries producing for civilian consumption had been allowed to run down and to get out of date. Add to this the physical devastation which had occurred during the war over a large part of Europe and the dislocation of the economic systems of the defeated countries, including the new States carved out of their territories which were struggling during the post-war years to get their national economies into some sort of order.

All these things account for the fact that, despite the technical advances made during the war, production took a long time to recover even to the pre-war levels. Even in 1923, the fifth year of peace, production over the world as a whole, according to the estimates made by the Economic Section of the League of Nations, had grown in comparison with 1913 only a very little more than population; and this small credit balance was entirely due to relatively rapid growth of output in areas which had escaped war devastation and had been diverted less fully than others to meeting the needs of war. Thus, in North America, production had risen in 1923 by 29 per cent. over the level of 1913, as compared with a population increase of between 16 and 17 per cent., while in Europe (excluding the Soviet Union), whereas population had risen by somewhat less than 4 per cent., production per head was still a long way below the level of 1913. Indeed, even aggregate output in Europe, with no allowance for the change in population, stood in 1923 at about 13 per cent. below the pre-war level. Not until 1925 did Europe as a whole regain the pre-war total of aggregate production, and even in that year production in Eastern and Central Europe was still appreciably below that of 1913. In every other continent production had been increasing considerably faster than population; in Europe, which had borne the brunt of warfare, it took at least eight years to get back to the pre-war level of production per head. Even in Great Britain, which had undergone no actual devastation during the war, it seems certain—though there are no accurate figures—that the pre-war level of production per head was not regained until 1924. In Eastern and Central Europe (excluding the Soviet Union), it took four years longer to get back to an equivalent level. The figures for the Soviet Union are difficult to interpret, but the pre-war level seems to have been regained there somewhere about 1925. For the world as a whole the rise in production went significantly ahead of the increase in population only in 1925.

Coal Production after the First World War, including Lignite in Terms of Coal

	1909–13 (average)	1913	1921	1922	1923	1924	1925	1926	1927	1928	1929
A. Millions of metric tons											
United Kingdom	274	292	166[2]	254	280	271	247	128[2]	255	241	261
Germany[1]	138	160	141	150	89[3]	146	164	176	187	188	202
France[1]	42	44	28	31	38	44	47	52	52	52	54
Poland[1]	36	41	30	35	36	32	29	36	38	41	46
Czechoslovakia[1]	18	19	25	22	22	27	24	25	26	27	30
Saar[1]	11·5	12	10	11	9	14	13	14	14	13	14
Belgium	23	23	22	21	23	23	23	25	28	28	27
Holland	1·5	2	4	5	5	6	7	9	9	11	12
Continental Europe as a whole	24	29	9	9	12	16	18	26	32	35	40
U.S.S.R.[1]	302	340	281	297	250	326	340	379	403	410	443
Europe as a whole	576	632	447	551	530	597	587	507	658	651	704
U.S.A.	465	517	459	433	597	519	528	597	543	517	546
World	1,123	1,242	1,019	1,099	1,249	1,241	1,246	1,238	1,335	1,300	1,380
B. Index numbers											
United Kingdom	100	107	61[2]	93	102	99	90	47[2]	93	88	95
Germany[1]	100	116	102	109	64[3]	106	119	127	135	136	146
France[1]	100	105	67	74	90	105	112	124	124	124	129
Poland[1]	100	114	85	97	100	89	81	100	106	114	128
Czechoslovakia[1]	100	108	139	122	122	150	133	139	144	150	167
Saar[1]	100	106	83	98	80	122	113	119	119	113	119
Belgium	100	98	93	91	99	100	100	109	122	122	117
Holland	100	125	263	305	353	395	460	580	580	735	800
U.S.S.R.[1]	100	122	37	37	61	67	74	111	133	146	167
Continental Europe as a whole	100	113	93	98	83	108	113	125	133	136	147
Europe as a whole	100	110	78	96	92	104	102	88	114	113	122
U.S.A.	100	111	99	93	128	112	114	128	117	111	117
World	100	111	91	98	111	111	111	110	119	116	123

[1] Post-war areas. [2] Coal Strike. [3] Occupation of Ruhr.

Europe thus took a long time even to get back to the level of productivity which had existed in 1913. In terms of individual commodities, the contrast between European and American experience in the post-war years is highly significant. If we compare average output in the years 1909–13 with average output in 1920–4, we find that wheat output was 17 per cent. smaller in Europe and 9 per cent. larger in America during the post-war years. For coal, European output had fallen by 11 per cent., whereas American had risen by 12 per cent. European production of steel was down by nearly 20 per cent., whereas American production had risen by 28 per cent., and petroleum production was 40 per cent. lower in Europe and 275 per cent. higher in America. Europe had about the same number of cotton spindles in the post-war period as before the war, whereas in America the number of spindles had risen by 18 per cent. These are merely illustrative figures for a few commodities for which data are readily available, but if the list were extended it would tell the same story. Far from bringing any immediate enlargement of European production, the first World War left behind it a legacy of devastation and inefficiency which needed many years to liquidate. Indeed, European production had barely begun to forge well ahead of pre-war levels when it was beaten back by the advent of the great world depression of 1931.

Of course, a part of this failure to achieve higher production on the basis of wartime technical advance was due to economic dislocation accompanied by serious unemployment. It would, however, be a mistake to regard this as the main cause, for there were many other factors at work. Among these must be reckoned not only the physical devastation of a large part of Europe and the running down of plant and equipment outside the war industries, but also the continuance of civil war or disturbed political conditions over a considerable area and the putting out of action of a substantial part of the economic apparatus of Germany both before and during the French occupation of the Ruhr. Moreover, in those areas in which great estates were broken up and transformed into small peasant holdings, the effect, whatever its social advantages, was unfavourable to aggregate production. Standards of cultivation fell in the areas transferred to peasant cultivation, and, in face of the prevailing political conditions and the age-long poverty of the countries chiefly affected, it was difficult to do anything towards raising peasant standards by improving capital equipment, either on the farms or in the form of services which would have enabled the peasants to market their supplies under more favourable conditions.

Shall we do Better This Time?

Shall we do better this time? It would be the height of rashness to prophesy that we shall, in view of the much more serious and widespread devastation that the second World War has brought about, and of the fact that, in one of the greatest productive areas of Europe, the present purpose of the policy of the victors is not to raise production to the highest possible level, but to keep it down in order to eradicate the danger of German military revival. In such circumstances, it would be entirely unrealistic to suppose that recovery is likely to be quick or easy. Recovery depends on a number of factors which react one upon another. If food is seriously short, industrial and agricultural outputs are both bound to be low; for starving people have neither the strength nor the will to achieve high output. When machines are largely worn out, or obsolete, or have been smashed up or carried away, industry is bound to be inefficient, even if the workers are in a state of health in which they can give of their best. But inefficiency in industry accentuates the food crisis, both by making it more difficult to pay for imports and by making the farmers reluctant to carry goods to market when they cannot get what they want in exchange for them.

The devastation of German industry, first by war and subsequently by the carrying away as reparations of whatever was supposed to be surplus to the reduced needs of the German people, as defined at Potsdam, reacts on the rest of Europe, because Germany used to be for its neighbours both the principal market for local surpluses and the principal source of supply. The economic curtain between the Soviet zone of occupation and the zones held by the Western Powers, as well as the similar curtain across the rest of Europe between West and East, hampers recovery in the short run, even if it be compatible in the long run —which is doubtful—with a raising of European standards of life. The great waterways, such as the Danube, lie largely unused while the Great Powers dispute about their future control. In face of such facts it would be a miracle if economic recovery could proceed rapidly, whatever efforts each national Government may be making to bring it about.

In Great Britain, up to a point, physical recovery advanced more easily than over most of Europe. The industrial damage done by bombing was not at all severe; and there was no physical devastation due to fighting or occupation, such as occurred in France, Belgium, Italy, Holland, and a number of other States. Accordingly, it was a relatively simple matter to carry recovery a substantial distance, and to create internal conditions infinitely

better than could for the time exist in most parts of the Continent. This, however, is by no means the same thing as achieving assured rehabilitation of the British economy; for this partial recovery was achieved largely with obsolete equipment and under conditions which made it easy to sell all the exports British industries could produce, at almost any price they cared to ask. The real test could come only when British industry had to face effective competition in the world market; for only then could it be known whether Great Britain would solve the problem of readjusting its economy to meet its import needs with exports at prices which other countries would, in the long run, be ready to pay.

CHAPTER III

WHAT HAPPENS IN SLUMPS?

EVEN IF WE DO ACHIEVE RECOVERY, and succeed for a time in raising our exports to the required level, and in producing enough at home to support the British people at an improved standard of life, what is there to stand in the way of a collapse of these achievements of reconstruction in face of another slump, such as occurred within three years of the termination of the World War of 1914–18? What is there to prevent such a calamity, either in Great Britain or in any other country in which the volume of production and employment has hitherto been left to be settled mainly by the action of business men guided by considerations of profit? Is there anything to stop the flinging of workers on the streets, even in face of an evident and urgent need, both at home and abroad, for what they could be employed to produce? The existence of unsatisfied wants, both for goods to be consumed at home and for goods to be sent abroad in exchange for other kinds of goods, was not enough to stop the great depression which followed the ending of the first World War. Why should things turn out differently now?

Capital Goods and Exports

The unemployment which devastated the capitalist world so soon after 1918 had, on the face of the matter, two aspects. A good deal of it appeared to be due to the collapse of the demand for exports, which threw workers in the coal, cotton, and other exporting industries out of work, and, by destroying their purchasing power, reacted adversely on the demand for the products of other industries. A good deal of it appeared to be due to the fall in the orders for capital goods, as business men, losing faith in the prospects of the consuming market, almost ceased to buy new machinery, even for the replacement of worn-out or obsolescent machines. The slump affected other branches of production besides these: indeed, there was no industry or service that it did not affect. But it affected these two groups most of all.

If we look back on the history of earlier depressions, or forward to the even more devastating depression of 1930 and the following years, we shall find the same thing happening. In Great Britain

and other industrial countries, the heaviest blows have fallen, in one slump after another, on two groups of industries—those producing largely for export and those producing instruments of production and other constructional goods. This is a common feature of nearly all depressions, as they affect industry. Although the demand for all classes of goods and services undergoes some reduction when times are bad, the heaviest reductions occur in these two overlapping fields—for of course some exports are machines or other kinds of capital goods. The home demand for consumers' goods falls off as a rule much less than either the demand for exports or the demand for capital goods.

What Happens in Agriculture

This is what happens to industry. In agriculture, things usually take a somewhat different course. The demand for foodstuffs as a whole varies much less between good and bad times than the demand for most other things; and the demand for the cheaper kinds of foodstuffs varies least of all. Men must eat, and when their incomes are reduced they usually economise on other things sooner than go short of food—if they can get it. One would suppose, therefore, that the agricultural producers would find themselves in a relatively favourable position during a slump, and would be able to take advantage of the cheapening of industrial products while maintaining the prices of their own. Nothing could be further from the truth. The volume of agricultural output usually stays relatively high, even if it does not actually increase, during periods of depression; but, even if the demand for foodstuffs falls only a little, agricultural prices usually slump even more catastrophically than the prices of industrial goods, so that the purchasing power of agricultural commodities over industrial products falls off sharply, accentuating the decline in foreign trade. In particular, the prices of agricultural raw materials suffer a devastating decline.

This sharp fall in agricultural prices occurs partly because agricultural producers can neither combine easily to control the prices of their produce nor speedily cut down the amounts produced. Output is indeed in the short run dependent much more on the chances of harvests than on any deliberate action of the producers, who can act only within the conditions set by the natural rhythm of the seasons and the established practices of crop rotation and combined production of animal and vegetable products. Faced with a shortage of demand, actual or expected, the industrial employer can in most cases rapidly contract his output and discharge the workers he no longer requires. The farmer cannot act

so quickly, nor when he does act can he so easily adapt his labour force to the changed conditions of the market—above all when he is a peasant or family farmer, employing little or no labour beyond that of his own household.

Indeed, the farmer may in many cases react to a depression not by reducing his output, after the manner of most industrial employers, but by producing more. If he is a man of small resources, as most farmers are, he must sell his crops or his beasts without delay, even if he has not been compelled in effect to sell or mortgage them before they were grown. He depends on what he gets from the year's crops for re-stocking his farm, for buying such industrial goods and foodstuffs as he needs, for paying his rent, if he is a tenant, or his mortgage interest, and for meeting the claims of the tax-gatherer and in many cases the money-lender. He must have cash at all costs; and if the price of his produce falls, his first reaction is to attempt to grow or raise more, in order to maintain his cash income. In doing so, he of course worsens the market conditions; for the more he offers for sale, the less per unit he is likely to get. But it will not help him to refrain from increasing his output, unless his competitors do the same—and for the basic agricultural commodities the number of his competitors is legion, because these commodities are sold in a world-wide market, made up of millions of small producers, as well as a few large ones, in many different countries.

This helps to explain why, despite the fact that the consumption of foodstuffs is usually well maintained during a slump, their prices fall off so much. The millions of agricultural producers are in a weak bargaining position, both because of their sheer numbers and because they are scattered over many lands. Many of them try to improve their situation by joining together in Agricultural Co-operative Societies, among which the Canadian Grain-growers' Co-operatives are important, for the collective marketing of their produce. But unless such methods can become general, in all the large exporting countries, and unless the Co-operative Societies can be induced to follow a common policy in all countries, the power of the farmers, even collectively, to influence market conditions is severely limited. The Canadians cannot well afford to hold out for a higher price than the Argentinians are prepared to accept for grain of equal quality; for if they do, their grain will remain unsold and they will have to incur the heavy costs of storage, nor will they find it easy to borrow the cash which their farmer-members must have in order to carry on at all. Of course, if all the wheat available were wanted by the consumers without delay, this situation would not

arise. The farmers would be able to hold out for a reasonable price without fear of having their crops left on their hands. But all the grain is not wanted at once: there is usually a large carry-over in store from previous harvests. If the farmers try to hold out, the dealers use up the stocks without replacing them, leaving the producers to bear the costs of storage. There are usually enough needy sellers to bring the prices of basic foodstuffs tumbling down in a depression, despite the maintenance of consumption. And, of course, consumption is maintained partly because prices do fall so far. The buyers can buy as much as before, without using on foodstuffs any larger fraction of their reduced incomes. They may even consume more—those who are still in work—and yet spend a smaller proportion of their incomes.

Farm incomes, then, are apt to fall drastically in a slump—above all the incomes of peasant producers, who are least in a position to protect themselves. In countries which habitually import foodstuffs, the agricultural producers are often protected by their Governments, which restrict imports and take measures to raise the domestic prices of wheat and other agricultural products far above the world level. This, however, only makes matters worse for the agriculturists of the food exporting countries, by narrowing the markets where conditions are already adverse. Naturally, one consequence is that the peasants in these countries have to cut down almost to nothing their purchases of industrial goods—especially of imported goods, which become impossibly expensive as the Governments of the agricultural countries impose high tariffs on them, partly to protect home industries, but also partly in order to balance their international accounts. For the fall in agricultural prices reduces the yield of the exports from these countries, leaving them with less foreign money to cover their purchases of imports after meeting such debts as they owe abroad to foreign owners of capital. This decline in the purchases of industrial goods by the agriculturists deepens the depression in the industrial countries; and further depression in these markets helps to force agricultural prices down further still.

Agriculture and Industry Interact

Thus industrial and agricultural depression interact, showing themselves in unemployment in the industrial areas, but in the agricultural areas rather in a general fall in the standard of living far below its normally low levels. Prices fall in both agricultural and industrial areas; but the fall in agriculture is usually the

greater, because agricultural production is not cut down, at any rate until the slump has continued for a considerable time

We have already seen a part of the reason why depression in the industrial countries falls with special severity on the exporting industries. It is not only in agricultural countries that, when market conditions become adverse, attempts are made to cut down imports to the greatest practicable extent. In the industrial countries also, manufacturers demand increased protection, in the hope of mitigating the effects of the fall in demand on the sales and prices of their own products; while the fall in exports creates exchange difficulties similar to those which arise in the agricultural States, and makes the Governments concerned ready to listen to the claims of the manufacturers. Thus, periods of world depression are usually periods of increased restrictions on foreign trade, as each country attempts to protect its own nationals against the effects of the general worsening of economic affairs. These practices, when one country after another resorts to them, lose most of their effectiveness from the standpoint of each of the countries concerned; for countries cannot prosper by not taking in one another's washing.

What results is a general shrinkage in the volume of world trade, and therewith of world production and employment as well, wherever countries allow the volume of employment to be regulated by the conditions of the market. No one country, however, dares give up its beggar-my-neighbour policy as long as others persist in the same courses, for fear of having its market flooded with imports which will throw more of its own workers out of jobs, and will also dislocate its balance of payments. This was what happened to a considerable extent in Great Britain in 1931, as a consequence of the world crisis; and it led this country to abandon its traditional policy of Free Trade, and take to Protectionism instead, in addition to giving up the gold standard. Whether these measures were really necessary—either of them or both—we need not pause to consider just now. Our present concern is that each country's attempt, in time of depression, to protect its own home market is bound to cause a severe contraction in the amount of world trade. This reacts with particular seriousness on the industries which produce manufactured goods for export—including both capital and consumers' goods; for as a rule countries find it much easier to dispense in bad times with imports of manufactures than to curtail their normal imports of raw materials or foodstuffs to the desired extent—especially if the prices of such goods fall much more sharply than the prices of manufactures.

Industries in a Slump

The second group of industries in the industrial countries which suffers in an exceptional degree when depression sets in is that which produces mainly capital goods, whether for the home market or for export. Unemployment and the fall in production are in general much more severe in the industries which make 'capital goods' than in those which make consumers' goods for everyday use. In more technical language, 'investment' declines more than 'consumption,' despite the fall in consumption which follows upon the loss of purchasing power by those who are thrown out of work. Such industries as shipbuilding, iron and steel manufacture, heavy engineering, and, as a rule, building, suffer a much greater decline in activity than such industries as food processing, clothing, printing, and the lighter metal trades, which work mainly for the consumers' market.

Before we consider the reasons for this severity of depression in the industries which make capital goods, let us see what actually occurred to British industries of various kinds in the great slump of 1931 and the ensuing years. I have chosen for this purpose a number of industries whose fortunes illustrate what happened to the main branches of production and service during these years of worldwide distress. In the Table on pp. 340–41 the chosen industries and services have been divided into eight groups, related in broadly different ways to the productive system as a whole. The grouping is bound to be to some extent arbitrary, as certain industries could be assigned to more than one group. The metal industries export a substantial portion of their products: a large part of the product of the woollen and worsted industries is consumed at home: the building industry builds factories as well as houses; and so on. But anyone who does not like my grouping can make another for himself.

It will be seen that Group A (industries making capital goods) showed by far the highest addition to the percentages unemployed between 1929 and the years of deep depression. Group B (industries making durable consumers' goods) also showed very large increases, starting from a much lower level of unemployment in 1939. On the other hand, Groups E and F (industries producing foods and other immediately consumable supplies) showed much smaller increases, both absolute and proportionate, than the constructional industries. Moreover, the figures for Building can be further studied from another source, so as to separate residential building from the construction of factories. These data show the values of building plans approved, and are therefore affected by the fall in prices; but this does not affect their significance for the

THE INCREASE IN UNEMPLOYMENT BY INDUSTRIES BETWEEN 1929 AND 1931–3

	Average percentage unemployed, 1929	*Average percentage unemployed, 1931–3*	*Average increase for cost over 1929*	*Difference in percentage, unemployed*	*Year of greatest unemployment*
A. Industries chiefly making Capital Goods					
Steel-smelting, etc.	20·7	42·9	107	22·2	1931, 1932
Shipbuilding	27·5	58·2	112	30·7	1932
General engineering	9·8	27·5	180	17·7	1931, 1932
Constructional engineering	10·5	32·4	209	21·9	1932
Public contracting	20·4	38·4	89	18·4	1933
B. Industries chiefly making Durable Consumers' Goods					
Building	12·0	23·8	107	11·8	1932
Furniture	5·2	18·0	247	12·8	1932
Stoves, grates, etc.	11·9	24·9	109	13·0	1932
Electrical wiring, etc.	5·5	16·8	206	11·3	1932
Motor manufacture	7·4	18·7	153	11·3	1931
C. Industries chiefly serving Other Industries					
Coal-mining	21·1	31·0	47	9·9	1932
Chemicals	5·9	16·2	174	10·3	1931
Paper	4·5	11·3	152	6·8	1931
Boxmaking	10·3	25·5	148	15·2	1931, 1932
Sawmilling	9·0	19·5	117	10·5	1932
D. Industries producing Largely for Export					
Tinplates	15·0	36·4	143	21·4	1931
Cotton	11·9	33·2	179	21·3	1932
Woollen and worsted	12·2	20·6	69	8·4	1931
Dyeing and bleaching	13·6	28·7	111	15·1	1931
Pottery	15·0	31·1	107	16·1	1931
E. Industries producing Consumers' Goods, (a) Food and Drink					
Bread and biscuits	6·8	11·9	76	5·1	1931
Flour-milling	6·9	10·1	47	3·2	1931
Confectionery	10·0	14·7	47	4·7	1931
Drink	6·1	13·2	112	7·1	1932
Fishing	11·9	22·6	90	10·7	1932
F. Industries producing Other Goods for Everyday Use					
Hosiery	6·1	13·8	126	7·7	1931
Tailoring	7·8	15·0	92	7·2	1932
Boots and shoes	13·6	19·0	40	5·4	1932
Tobacco	4·2	9·0	114	4·8	1931
Printing	4·1	10·1	145	6·0	1931, 1932

THE INCREASE IN UNEMPLOYMENT BY INDUSTRIES BETWEEN 1929 AND 1931–3—*continued*

	Average percentage unemployed, 1929	*Average percentage unemployed, 1931–3*	*Average increase for cost over 1929*	*Difference in percentage, unemployed*	*Year of greatest unemployment*
G. Transport Services					
Railways (partial figures)	5·5	14·8	169	9·3	1932
Trams and buses	3·1	5·8	87	2·7	1932
Other road transport	11·9	21·3	79	9·4	1932, 1933
Docks and harbours	30·7	35·5	16	4·8	1931
Shipping	16·0	33·6	108	17·6	1932
H. Other Services					
Distribution	5·6	11·9	113	6·3	1932
Gas, water and electricity	5·9	10·2	72	4·3	1932
Hotels and restaurants	8·1	17·4	115	9·3	1931
Laundries	4·0	9·3	131	5·3	1931
Entertainments	9·3	20·2	125	10·9	1931

Unweighted averages[1]	*Percentage unemployed in 1929*	*Percentage unemployed in 1931–3*	*Increase per cent., 1929 to 1931–3*	*Increase in percentage unemployed, 1929 to 1931–3*	*Years of greatest unemployment*
Group A (Capital Goods)	18	40	139	22	1932
Group B (Durable Consumers' Goods)	8½	20½	164	12	1932
Group C (Serving Other Industries)	10	20½	128	10½	1931, 1932
Group D (Exports)	13½	30	122	16½	1931
Group E (Food)	8½	14½	74	6	1931, 1932
Group F (Other Consumers' Goods)	6	13½	103	6	1931, 1932
Group G (Transport)	13½	22	92	9	1932
Group H (Services)	6½	13½	111	7	1931, 1932

purpose in hand. Whereas the value of plans passed for residential buildings, after falling by 8½ per cent. from 1929 to 1931, rose by 1933 to 41 per cent. above the level of 1929, the value of plans for factories fell rapidly by 56 per cent. up to 1931, and then recovered slowly, but was still in 1933 over 40 per cent. below the level of 1929.

Unemployment was also exceptionally severe in industries which produce largely for export (Group D). This group had already a high level of unemployment in 1929—to that we shall come back later—but the additional unemployment that was recorded during the depression was higher than in any other group except Group A. It is also to be observed that the period of

[1] An unweighted average is one in which each item is given equal value, irrespective of its degree of importance. Thus, in this Table, steel-smelting and engineering are given equal weight, though engineering employs many more workers.

maximum depression came in general earlier in the export trades than elsewhere, and that recovery also set in sooner. Four of the five selected industries passed through their worst unemployment in 1931, and in all of them there had been a substantial recovery by 1933. Even in the cotton industry, which was at its worst in 1932, things were nearly as bad in 1931, and greatly improved in 1933. The chemical industry, which I have assigned to a different group, also had its worst time in 1931, and had substantially recovered two years later. The hosiery industry had a similar experience.

The industries producing goods for immediate consumption and the services such as distribution and public utilities showed the smallest increases in the proportion of workers unemployed. In the transport group, tram and bus services naturally showed an even more marked stability of employment, whereas shipping services were very heavily affected. The lowest average rates of unemployment throughout the years of severe depression were recorded by the following trades (of those selected for the Table): trams and buses, tobacco, laundries, flour-milling, printing, gas, water and electricity. The highest were for shipbuilding, steel, public contracting, tinplates, docks, shipping, cotton, constructional engineering, and coal-mining.

Why the Capital Goods Industries are Most Depressed

The reasons for these sharp differences in the incidence of general depressions on industries and services of different types are not difficult to see. The demand for capital goods, in the sense of instruments of production, such as factories, machinery, ships, and the materials used in making them, is what is technically called a 'derived' demand: it depends on the expected demand for the final consumable products which these instruments of production or transport can be used to make or to carry about. The amounts which owners of capital are prepared to invest, or business men to borrow from them for investment, obviously depend on the expectations of profit which they entertain. If effective demand for goods and services in general is expected to expand, that is a reason for buying more machinery, etc., in order to be able to make a profit out of catering for this demand; whereas, if demand is expected to fall off, that is a strong reason for refraining from such investment. In other words, the demand for investment goods depends on the current capitalist views of the prospects of the markets for consumers' goods; for all products either are consumers' goods or are destined to help directly or indirectly in making consumers' goods, or to be exchanged for them.

Consumption is the only end of production; and it would be mere folly to pile up instruments of production in the absence of expected means of disposing of their products.

In bad times, then, the amount of 'investment' falls off sharply, because the prospects of profitably enlarging, or even of maintaining, the sales of consumers' goods and services grow less, or disappear. It may seem that, if the sums withheld from 'investment' were applied instead to the buying of additional quantities of consumers' goods and services, no harm would be done, and the volume of production and employment would be unaffected. This, however, is not what actually happens: nor, if it did, would the effects be negligible. The trades producing consumers' goods and services could not at short notice expand their output to meet this large shift in demand: nor could the workers displaced from the investment industries shift over suddenly to quite different skills. A puddler cannot turn suddenly to making puddings, or a machine-maker into a maker of boots. An attempt suddenly to expand greatly the demand for consumers' goods, in face of a sharp decline in the demand for investment goods, would in practice leave plant, business ability, and skilled labour derelict in the declining trades, and would at the same time force up costs of production and prices in the expanding trades, which could largely increase their output at short notice only at rising costs.[1] Thus, even if all the income withdrawn from investment were transferred promptly to consumption, serious dislocation would arise.

All the income is not, however, thus transferred. The agencies which would have spent money on investment goods do not as a rule, when they reduce investment, increase consumption instead. If Imperial Chemical Industries decides to refrain from building a new factory, it does not expend the sum withheld on champagne for its directors; nor does it pay this money out in higher dividends to its shareholders—much less in higher wages to its employees. It treats the money as capital, and *holds it in reserve*—or, in other words, does not spend it at all, until it thinks the time has come for resuming active investment in the light of improving market prospects. 'Investment,' however, will fall off, not merely in proportion to the expected fall in the demand for consumers' goods, but much more. If the sales of consumers' goods

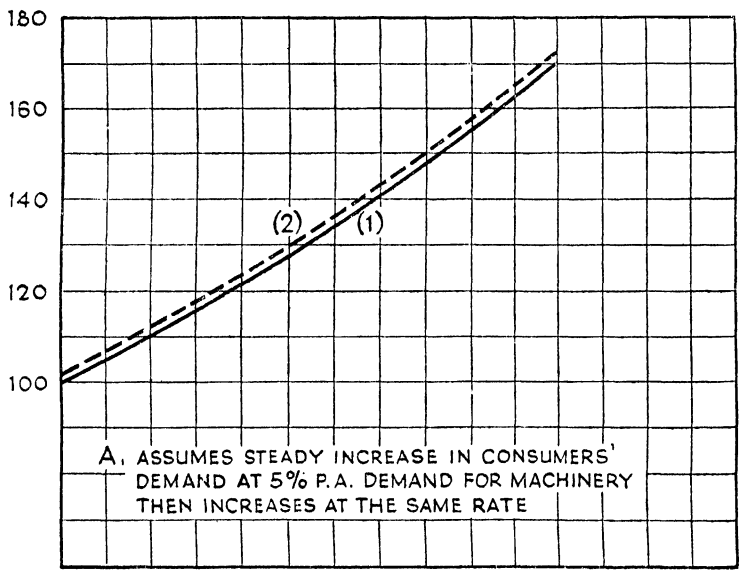
[1] If previously there had been considerable unused capacity in the industries making consumers' goods, it might be possible up to a point to expand the output of such goods even at falling costs. But there would be a limit to this possibility, and if the reserve of unused capacity consisted mainly of inferior instruments of production, or if inferior labour had to be employed, costs would tend to rise at once.

fall off at all, or are expected to fall off, the demand for means of making or transporting such goods will be likely to fall off much more sharply, because most manufacturers or transport undertakings will be able to make do with the instruments of production or conveyance which they already have, without buying additional ones or even replacing all those which wear out or become obsolete.

Relative Demand for Producers' and Consumers' Goods

In the accompanying diagrams I have taken a series of imaginary examples of the effects of this tendency. Diagram A

DIAGRAM A



RELATIVE DEMAND FOR CONSUMERS' AND PRODUCERS' GOODS.
(1) = Consumers' Goods.
(2) = Machinery.
(First Year of Series = 100)

In this and subsequent diagrams Depreciation and Obsolescence of Machinery are assumed to be at a rate of 10 per cent. per annum.

shows what would happen under conditions of perfectly smooth economic progress, with consumers' demand growing at a constant rate of five per cent. per annum, and the depreciation and

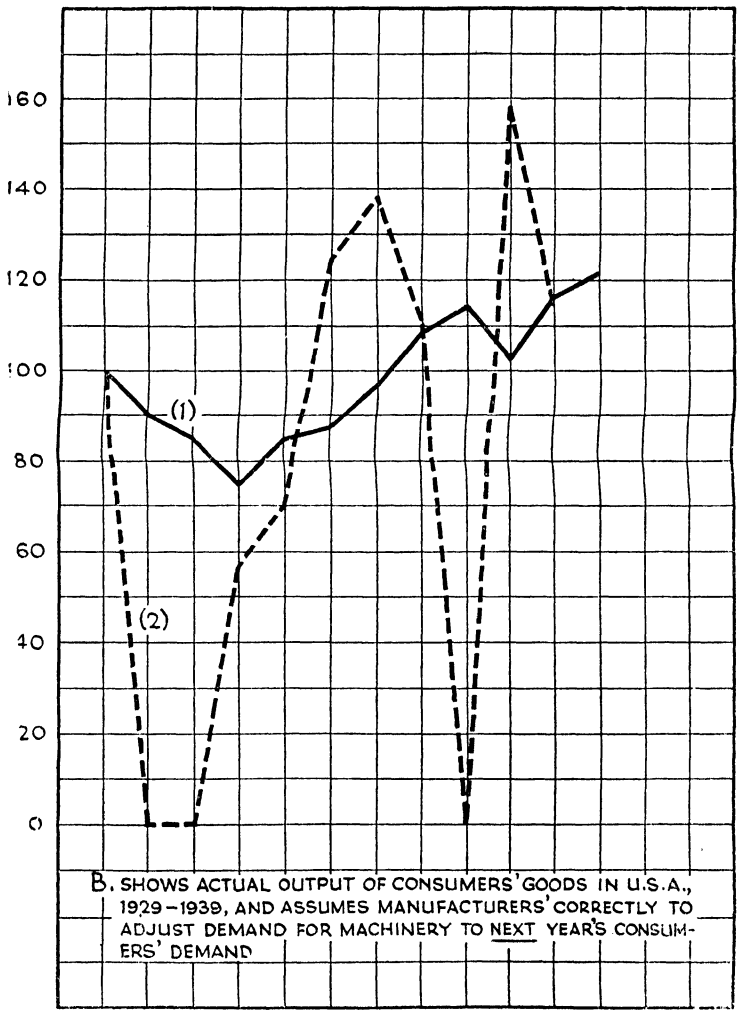
YEAR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
A. ON THE ASSUMPTION OF A STEADY ANNUAL EXPANSION OF FIVE PER CENT IN CONSUMERS' DEMAND												
CONSUMERS' DEMAND	100	105	110·25	115·76	121·55	127·63	134·01	140·71	147·75	155·14	162·89	171·04
USED MACHINERY MAINTAINED	100	100	105	110·25	115·76	121·55	127·63	134·01	140·71	147·75	155·14	162·89
NEW MACHINERY AVAILABLE	–	5	5·25	5·51	5·79	6·08	6·38	6·70	7·03	7·39	7·76	8·15
TOTAL MACHINERY AVAILABLE	100	105	110·25	115·76	121·55	127·63	134·01	140·71	147·75	155·14	162·89	171·04
RENEWALS ON ORDER	10	10·5	11·02	11·58	12·16	12·76	13·40	14·07	14·77	15·51	16·29	17·10
ADDITIONAL MACHINES ON ORDER	5	5·25	5·51	5·79	6·08	6·38	6·70	7·03	7·39	7·76	8·15	8·55
TOTAL DEMAND FOR MACHINERY	15	15·75	16·54	17·36	18·24	19·14	20·10	21·10	22·16	23·27	24·44	25·65
" " INDEX (YEAR I=100)	100	105	110·25	115·76	121·55	127·63	134·01	140·71	147·75	155·14	162·89	171·04

obsolescence of machinery also proceeding at a constant rate, which has been taken at ten per cent. per annum. Under these conditions the demand for machinery, including both replacements and additional plant, would advance at the same rate as the demand for consumers' goods, and both types of industry would move smoothly forward without any change in their relative demands for labour.

In the second diagram I have substituted for this smooth expansion of the demand for consumers' goods a line which represents the actual course of the output of consumers' goods in the United States from 1929 to 1940, covering the period of the world economic depression, the New Deal, and the years preceding the entry of America into the war. Diagram C shows the actual relative movements of the production of consumers' goods and investment goods in the United States over this period. 'Investment goods' are, of course, a much wider category than 'machinery,' including buildings and durable consumers' goods of all sorts as well as a wide range of capital goods affected by *public* demand. The New Deal, in fact, largely explains the recovery in the output of investment goods after the deep depression of 1932–3.

Diagram B shows how an imaginary manufacturer of consumers' goods would have reacted in his demand for machinery to the fluctuations in the market for consumers' goods, if he had always looked a single year ahead and had always correctly anticipated the next year's level of demand for his products. It is assumed here, as in all the figures, that the machinery wears out or becomes obsolete at a constant rate of ten per cent. per annum, so that, in order to maintain output capacity unchanged, it is necessary to replace ten per cent. of the machines every year. Thus, our manufacturer, if he started with 100 machines in Year I, when demand stood at 100, would be able to meet the whole of the next year's demand, which fell to 90, without acquiring any machines either for replacement or for expansion. On this occasion—the unexpected opening of a crisis—I have departed from the assumption of correct forecasting of demand, and have assumed that the manufacturer provided in Year I both for 10 per cent. renewals and for an expansion of 5 per cent., leaving him in Year II with 105 machine units to deal with a demand for only 90 units of consumers' goods. In Year II, correctly anticipating a further fall in demand, he need order no machines at all; and, even if he orders none, he will still be left with a surplus capacity (94·5, as against a demand of 85) in Year III. Even if he places no orders for machines in Year III, the further fall in

DIAGRAM B

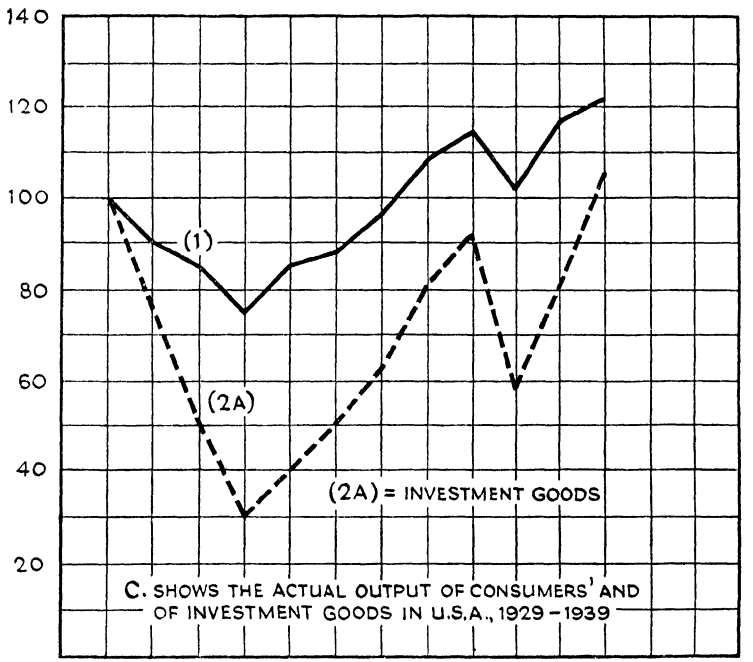


Relative Demand for Consumers' Goods.

YEAR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
B. ON THE BASIS OF THE ACTUAL OUTPUT OF CONSUMERS' GOODS IN U.S.A., 1929 TO 1939, MANUFACTURERS CORRECTLY ANTICIPATING THE NEXT YEAR'S DEMAND												
CONSUMERS' DEMAND	100	90	85	75	85	87	97	108	114	102	116	122
USED MACHINERY MAINTAINED	100	100	94·5	85	85	85	87	97	108	102·6	102·6	122
NEW MACHINERY AVAILABLE	–	5	–	–	–	2	10	11	6	–	13·4	–
TOTAL MACHINERY AVAILABLE	100	105	94·5	85	85	87	97	108	114	102·6	116	122
RENEWALS ON ORDER	10	–	–	8·5	8·5	8·7	9·7	10·8	–	10·3	11·6	?
ADDITIONAL MACHINES ON ORDER	5	–	–	–	2	·10	11	6	–	13·4	6	?
TOTAL DEMAND FOR MACHINERY	15	–	–	8·5	10·5	18·7	20·7	16·8	–	23·7	17·6	?
" " (INDEX, YEAR I = 100)	100	–	–	57	70	125	138	112	–	158	116	?

consumers' demand will leave him with much the same surplus capacity (85 against 75) in Year IV; but for Year V he correctly anticipates a considerable recovery of demand, and therefore spends on renewals his full 10 per cent. reckoned on his reduced equipment. This correct forecasting enables him to reach a balanced position (85–85) in Year V. By then anticipating a small further revival of consumers' demand, he not only places

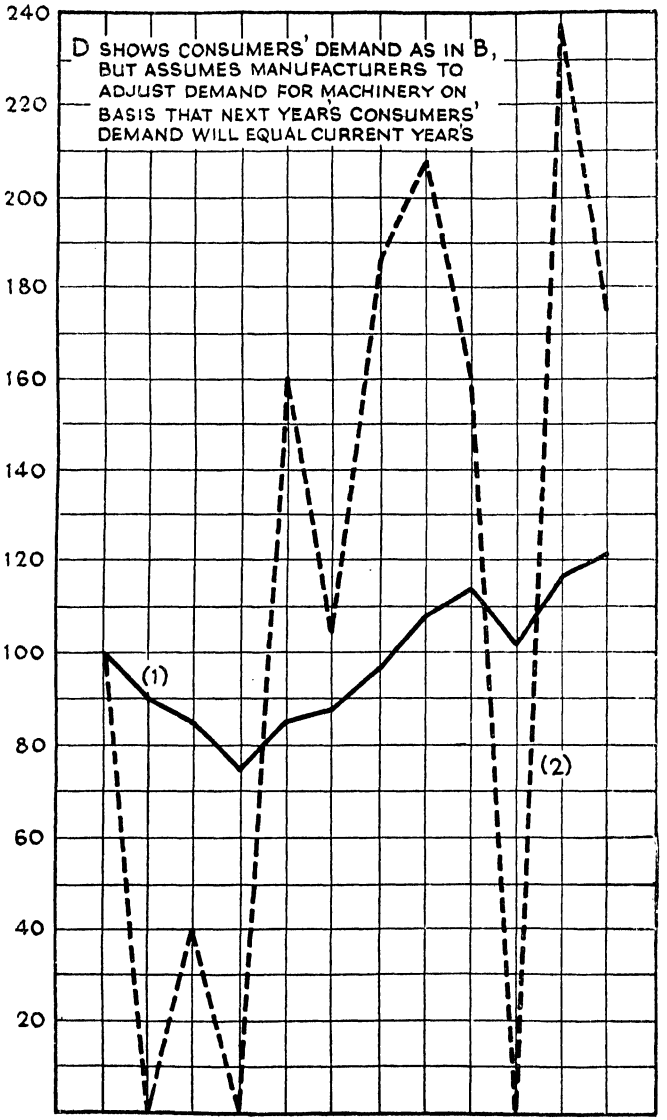
DIAGRAM C



RELATIVE DEMAND FOR CONSUMERS' GOODS.

orders for renewals at 10 per cent. of his machine capacity, but orders two additional machines. This leaves him still with a balanced position (87–87) in Year VI; but he now anticipates a much greater revival in Year VII, and orders, over and above replacements, ten additional machines. Anticipating yet higher demand in Year VIII, he follows the same policy in Year VII, ordering eleven additional machines, as well as replacements at the higher figure required by the increase in his total machine

DIAGRAM D



RELATIVE DEMAND FOR CONSUMERS' GOODS.

YEAR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
D. ON THE SAME BASIS AS B, BUT MANUFACTURERS ASSUMING NEXT YEAR'S DEMAND WILL BE THE SAME AS THE CURRENT YEAR'S												
CONSUMERS' DEMAND	100	90	85	75	85	87	97	108	114	102	116	122
USED MACHINERY MAINTAINED	100	100	90	85	76·5	76·5	85	87	97	108	102·6	102·6
NEW MACHINERY AVAILABLE	–	–	–	–	–	8·5	2	10	11	6	–	13·4
TOTAL MACHINERY AVAILABLE	100	100	90	85	76·5	85	87	97	108	114	102·6	116
RENEWALS ON ORDER	10	–	4	–	7·65	8·5	8·7	9·7	10·8	–	10·3	11·6
ADDITIONAL MACHINES ON ORDER	–	–	–	–	8·5	2	10	11	6	–	13·4	6
TOTAL DEMAND FOR MACHINERY	10	–	4	–	16·15	10·5	18·7	20·7	16·8	–	23·7	17·6
" " (INDEX YEAR I=100)	100	–	40	–	161	105	187	207	168	–	237	176

capacity. Still expecting increased demand in Year IX, but at a slower rate, he maintains his full provision for renewals in Year VIII, but orders only six additional machines. Thereafter, however, he expects a serious recession in Year X; and accordingly in Year IX he neither orders additional machines nor replaces those which wear out. His demand for machinery falls suddenly to zero. The recession, however, is short-lived, and in Year X he anticipates a sharp revival in Year XI. He has had very little surplus capacity in Year X, and accordingly he makes haste not only to resume provision for renewals but also to order a large number of additional machines in order to cope with the increased demand. The following year, anticipating a slower increase, he still orders additional machines as well as replacements, but not so many. What he will do in Year XII we cannot say, as we are making no assumption about consumers' demand in Year XIII.

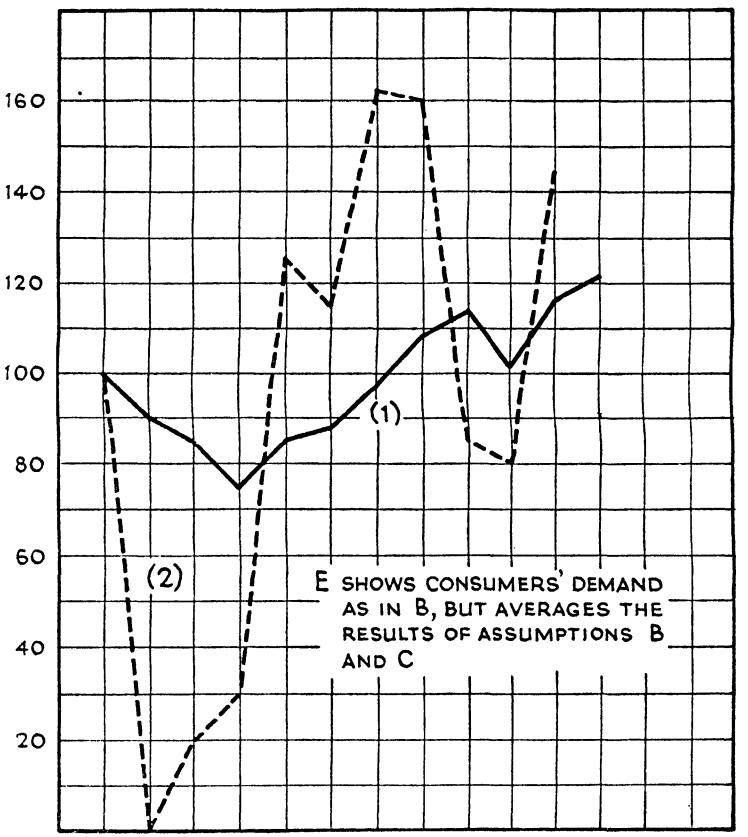
Under the conditions here assumed, the demand for machinery ranges, over the eleven years, from nearly 24 to zero, or, treating Year I as 100, from 158 to zero, whereas consumers' demand ranges only from 116 to 75.

So far we have been assuming perfect foreknowledge in the manufacturer of the level of next year's demand, and a policy based exclusively on that knowledge. In Diagram D I make the alternative assumption that the manufacturer bases his demand for machinery on the consumers' demand of the current year, thus acting in expectation of a continuance of the existing level of demand. This assumption leads to still wider fluctuations in the demand for machinery. In three years out of twelve the manufacturer orders no machines at all, whereas in Year XI he orders twenty-four machines.

As either assumption is to some extent unreal, I have shown in Diagram E the result of averaging them. I make no pretence that such an averaging process has any basis in statistical theory; but the effect is to present a picture which probably comes somewhat nearer reality. Manufacturers act neither with full nor with no knowledge of future prospects: nor are they uninfluenced or wholly influenced by current levels of demand. On this mixed assumption, there is still one year in which no orders at all for machines are placed; and this year follows immediately upon the crisis. Thereafter, the demand for machines alternates between exceeding and falling below the demand for consumers' goods. If we compare Diagram C with Diagram E, we see that in the great American depression the demand for investment goods in general was very much more sluggish during the recovery than

the assumed demand for machinery as shown in Diagram E. The American crisis was of course exceptionally a crisis of business confidence, notable for the immensity of the shrinkage of invest-

DIAGRAM E



RELATIVE DEMAND FOR CONSUMERS' GOODS.

Diagram E shows consumers' demand as in B, but averages the results of assumptions B and C.

ment which it involved. To a considerable extent, American organisers of investment in capital goods went on strike; and only the New Deal expedients prevented the demand for capital goods

from remaining even lower than it was for several years after the initial depression.

Modifications in Practice

Of course, I am not suggesting that the demand for machinery as a whole will ever in fact follow the course shown in my imaginary figures. In practice, however low total consumers' demand may fall, there will always be *some* manufacturers who will order machines for replacements and even some branches of industry which will continue to expand during a slump. In some cases, technique will be changing so fast that there will be a demand even in the worst times for the replacement of obsolete types. In other cases, different machines will be needed, when manufacturers switch over from one type of production to another that is less depressed. Many factors will modify in practice the degree of fluctuation in the demand for machines and other instruments of production. In the 'thirties, for example, even when shipowners were laying up redundant cargo ships and the shipyard order books were empty of commissions for ordinary steamers, there was a demand for oil-tankers because of the increasing use of oil-fuel in many branches of production and transport; and there was also some demand for diesel-engined vessels which were replacing ordinary steamers. Again, the stimulus given to the use of electricity by the building of the Grid caused the demand for electrical machinery and equipment to be well sustained during the years of depression. However, a fall very much less catastrophic than is shown in my imaginary Figures may still be several times as large as the fall in the demand for consumers' goods as a whole, and may set up very serious reactions on the balance of the economic system and on employment in the machine-making trades and districts. In the American example, employment in the investment industries fell in 1932 to about a quarter of what it had been in 1929, and did not regain the 1929 level until 1939—and even then only under the stimulus of war orders from Great Britain.

The Building Industry

The building industry, which is also a constructional industry, but produces 'durable consumers' goods' (houses) as well as 'instruments of production' (factories, warehouses, etc.), stands on a somewhat different footing from the machine-making industries. The demand for houses is not only influenced very greatly by public policy, which may stimulate it by special subsidies in periods of business depression, but is also liable to special

economic influences. As we have seen in a previous chapter, the 'economic rent' at which houses can be let depends not only on the capital sums which they cost to build, and on the price of land, but also on the rates of interest which have to be paid on the capital invested in them. Thus, for a house costing £500 to build, the charge for interest only at 5 per cent. (apart from ground rent) will be £25 a year, whereas at 3 per cent. it will be only £15. High rates of interest thus mean high rents, and are deterrent both to house-seekers and to would-be builders; whereas low rates are encouraging to both. However, house-building will not take place, even at low rates of interest, unless there be an effective demand for new houses at the rents corresponding to these rates; and accordingly anything that reduces wages or salaries and adversely affects the ability of would-be tenants to pay is strong discouragement to the building of the smaller types of dwellings which make up the bulk of the supply. In practice, for a long time up to about 1933, houses had not been built in sufficient numbers to prevent a fall in national standards of accommodation; and this shortage went right back to nearly the beginning of the present century. Moreover, such houses as were built, except when local authorities undertook the building with the aid of State subsidies, were mostly not for renting but for sale at prices beyond the means of the vast majority of wage-earners. From 1933 onwards, lower rates of interest carried with them a great expansion of house-building; but even at the lower rates few houses were built without subsidy for letting at rents within the means of the majority of workers, and most house-building was still directed to the provision of houses for sale with the aid of advances from Building Societies and other similar agencies. Total house-building activity, however, rose to a high level, as soon as it was stimulated by the fall in interest rates. The number of houses built by private enterprise without State aid, which had averaged under 70,000 a year from 1923 to 1928, was averaging well over 280,000 a year from 1934 to 1938. Building activity in recent times has fluctuated wildly under these various influences; and the building industry, despite the obvious and urgent need for its services, has suffered severely from unemployment, both epidemic and endemic—the product partly of changes in economic conditions and in public policies, and partly of defective organisation due largely to the repeated upsets which it has undergone.

The accompanying Table illustrates the very special position occupied by the building industry. The first four columns cover only housing, and omit the two other main sections of the industry

—industrial building and repair and maintenance work; but they show the better the special conditions to which the industry is subject. Industrial building will tend naturally to follow a course largely determined by the demand for investment goods in general, while repairs and maintenance will fluctuate both with investment activity and with consumers' demand. House-building on the other hand depends mainly on the two factors of public policy and interest rates, whose influence is broadly illustrated by the figures showing houses built with and without aid from public funds. In later columns I have shown the fluctuation of total house-building activity from year to year as compared with the changes in the general level of industrial activity in all fields; and the two last columns show the high levels of unemployment in building even in the good years. Here I have given, in addition to the annual averages, the percentages for the June quarter—the busiest of the year and the least liable to disturbances owing to weather. The building industry increased its output of houses by 68 per cent. between 1929–30 and 1936–7, but had higher unemployment rates in the later than in the earlier years.

HOUSE-BUILDING IN GREAT BRITAIN, 1923–38

Financial year	*Houses built with aid from public funds, thousands*	*Houses built without aid from public funds, thousands*	*Total, thousands*	*Calendar year*	*General index of industrial production*	*Average unemployment in building industry, Index, 1929–30 = 100*	*calendar year*	*June quarter*
1923–4	24	69	93	—	—	42	—	—
1924–5	73	71	144	—	89	65	—	—
1925–6	116	68	184	—	—	84	—	—
1926–7	168	67	235	—	—	107	—	—
1927–8	198	63	261	—	95	119	—	—
1928–9	122	67	189	1928	94	86	12·0	10·0
1929–30	127	93	220	1929	100	100	12·2	8·5
1930–1	67	127	194	1930	92	88	16·7	12·7
1931–2	84	130	214	1931	84	97	22·5	18·1
1932–3	74	145	219	1932	84	99	26·5	26·1
1933–4	84	210	294	1933	88	134	23·2	19·9
1934–5	57	294	351	1934	99	160	18·2	14·9
1935–6	71	279	350	1935	106	159	16·0	13·6
1936–7	88	282	370	1936	116	168	13·8	10·7
1937–8	95	265	360	1937	124	164	13·4	10·8

CHAPTER IV

STRUCTURAL UNEMPLOYMENT AND INDUSTRIAL MALADJUSTMENT

IN THE PRECEDING CHAPTER, I gave some account of what happens to industry when, for any reason, a recession in economic activity occurs. Some industries, we saw, are affected at such times much more adversely than others; and unemployment grows much more in these industries and in areas largely dependent upon them than elsewhere. It does not, however, follow that the industries which are most affected by slumps are, even in slumps, those which are worst off; for side by side with the form of unemployment we have been studying—called by economists 'cyclical' unemployment—there is another form—'structural' unemployment—which may be even more disastrous in its social consequences, because it may last much longer and has no tendency to disappear, as 'cyclical' unemployment does, when general economic conditions improve.

In the unemployment which devastated the capitalist world between the wars there were these two main elements, over and above what is commonly regarded as the normal 'friction' of the labour market. Some unemployment of a sort there will be, even in the best-regulated economic society; for there are bound to be intervals of idleness when workers are changing jobs, as well as some seasonal shortages of work and some short-term unemployment due to changes in fashion or technique temporarily upsetting the adjustment of supply and demand. Unemployment of these kinds, however, need constitute no serious social problem when the general demand for labour is high. It is to be sharply distinguished from the two quite different types of unemployment which kept vast numbers out of work, not merely for a few days or weeks, but for years on end, until many of them lost their skill and capacity to work without fresh training or rehabilitation, and boys and girls in the depressed areas grew up to manhood with no chance of learning a trade and came to regard 'life on the dole' as a normal and natural way of existence.

Two Kinds of Unemployment

By 'cyclical unemployment' is meant, broadly speaking, the shortage of demand for labour which arises in times of general

trade depression and disappears as trade revives; whereas 'structural unemployment' exists where total demand is deficient even in times of relative prosperity, or where the available supplies of labour do not possess the skills and aptitudes that are wanted, or where the capital equipment of industry is not adapted to produce goods and services of different sorts in the proportions in which they are demanded in home and foreign markets.

In the first place, cyclical unemployment connotes a *general shrinkage* in the demand for labour, below what is regarded as normal in the light of current experience; whereas structural unemployment connotes either a *general shortage* in the demand, persisting in good and bad years alike, or *particular shortages*, arising from the existence of surpluses of workers possessing particular skills or aptitudes, or living in certain areas, or from shortages of particular kinds of capital equipment, usually coexisting with surpluses of equipment of other, unwanted kinds. We must now briefly consider certain special characteristics of this second type of unemployment, arising from *structural* causes.

If structural unemployment were due only to particular shortages, which we may group together as forms of industrial *maladjustment*, it might be expected to correct itself in process of time, unless new maladjustments developed as fast as existing maladjustments were dealt with. The process might be long, and much suffering and economic loss might occur while it was happening; but gradually the redundant workers and plant would disappear from declining industries, workers would be trained for alternative types of work and new entrants would seek expanding occupations, investment would shift to expanding industries, and areas affected by loss of their old employments would either find new ones or undergo a lasting fall of population. I shall have something to say of these processes of readjustment later in this chapter: the point here is that they would occur, sooner or later, if structural unemployment were solely due to maladjustment of labour and capital resources to consumers' demands.

Structural Unemployment in Its General Form

On the other hand, if structural unemployment is due to a general shortage in the demand for labour, it may have no such tendency to disappear. One of the most remarkable features of the period between the wars was the appearance, not in one capitalist country but in many, of an apparently general redundancy of labour, even in periods of business activity. This was attributed by some writers to the rapid development of productive

techniques which had the effect of displacing labour by self-acting machinery. It was called *technological* unemployment. Of course, this displacement of labour was nothing new: it has been going on steadily ever since the Industrial Revolution. The older economists always argued that, although the introduction of labour-saving machines might temporarily displace labour, the redundant workers would in the end be absorbed by the expansion of other industries, if not by that of the very industry from which they had been discarded. The new machines, it was argued, would cheapen goods, and would so enable more to be sold and more workers to be employed. On the whole, in the nineteenth century, this did happen, though there were often very serious and long-drawn-out sufferings, as among the handloom weavers. But since 1918 at any rate it has signally failed to happen, in both Great Britain and the United States and on a smaller scale elsewhere.

Why has this failure occurred? I cannot go into the question fully at this stage; and I shall be coming back to it later. But in general I have no doubt it is due to a change in capitalism itself. Throughout the nineteenth century those countries which had adopted advanced capitalist techniques were continually finding fresh markets not only at home but also by expanding sales in the less advanced countries, where their machine-made wares competed with those of the native handicrafts or met new demands created by the traders among the native populations. This process of expansion of external markets was an essential factor in absorbing the increased output made possible by technical advances and in stimulating the capitalists of the advanced countries to increase output still further and to take on additional labour. On the whole, this continued to be the position up to 1914, though the increasing number of countries engaged in advanced capitalist production intensified the struggle for markets. After 1918, the process of expansion was notably slowed down, largely because there were no more easy markets awaiting exploitation, but also because of a sharp decline in capitalist confidence in the buoyancy of world markets and in the security of overseas investment. In effect, the position was that the capacity of the backward countries to buy more and more goods from the more advanced could be developed only by large investments designed to raise productivity in the backward areas, so as to increase their effective demand. But political unrest and war dislocation made such investments look unsafe; and in addition there was often the fear (short-sighted, as we have seen, but none the less natural) that the result of investment in the backward countries would be the

growth in them of industries which would compete with those of the advanced countries and thus narrow, instead of enlarging, the outlets for their exports. It was not realised (or, where it was realised, the realisation was not acted on) that the effect of a rise in the productivity of backward countries was bound to be an increase in their demand for imports, though not necessarily for imports of the same kinds as they had previously bought.

The Growth of Monopoly Capitalism

Faced with a failure of foreign markets to expand, the capitalists of the advanced countries abandoned more and more their older practices of competition, and combined, both nationally and internationally, to regulate output and to share out, by means of cartels, what markets there were. The effect of this was that, when technological changes led to a displacement of labour in the industries organised in this way, they did not reduce their prices to the lowest practicable level in order to expand sales, but maintained prices by offering less for sale. They failed, accordingly, to reabsorb the displaced labour by expanding output. Moreover, this policy reacted on the demand for labour in other industries, even where they were not dominated by cartels or other forms of monopoly; for if the monopolists discharged workers, the effect was to reduce effective demand for other products besides their own, so that the non-cartellised industries had no motive for expanding and could not absorb the labour displaced by technological forces.

Thus, the growth of monopoly, rather than technological change in itself, lay at the back of the growth of structural unemployment in the form of a general shortage in the demand for labour; and the growth of monopoly, made possible by the vast scale of investment required in many branches of modern industry, was intensified by the upsets, political and economic, due to the first World War. But, even beyond this, the development of monopoly practices was the outcome of a change in the character of capitalism in the advanced countries when, having become more numerous and more competitive one with another, they found themselves faced with a situation in which there were no longer easy ways of expanding foreign sales by invading the markets of the less advanced parts of the world.

These are the factors which underlay the increase after the first World War in structural unemployment of the kind that arises when, even in good years, the total demand for labour falls short of the supply. It can be broadly stated that the effect of monopoly

is always to keep production well below what it would be technically possible to produce at a profit, and much below what could be produced if the only limits to production were set by technical and human factors. Monopoly is essentially an instrument for restricting supply by maintaining prices, or in order to maintain prices, and therewith profits. The more monopolistic capitalism becomes, the more are deficiencies in the demand for labour bound to appear because prices are held at levels inconsistent with the expansion of demand, or supplies are directly restricted in order to maintain prices. Under such conditions, technological development is bound to involve increasing unemployment.

Structural Unemployment in Its Particular Forms

We may now turn our attention to the second type of structural unemployment, which arises where the structure of industry, including that of the labour force, is ill-adapted to meet the demands which are made upon it, or would be made if it were better able to meet them. Consumers want, not simply supplies of undifferentiated goods and services, but goods and services of particular kinds. This applies both to home consumers and to foreign customers of the export trades. Every spender of an income applies his buying power to a number of different purchases, spending so much on one thing and so much on another, until he has either bought all he wants or come to the end of what he is able or prepared to spend. Unless he is very rich, he is always left in the position that if he were richer he would spend more—in other words, he has certain unsatisfied wants, either for more of things of which he has acquired some already, or for some of things of which he has none. The point at which he just leaves off buying is called his 'margin' of demand, and the purchases which he just does not make are said to lie just beyond the 'margin.' If his income rose by, say, 10 per cent., he would buy more goods and services, and the 'margin' would be pushed further away, though it would still exist.

I have taken the example of a single spender; but the same principle holds good for the 'market' as a whole. If the national income were increased by 10 per cent., demand for most kinds of goods and services would rise, but the demand for different things would rise in greatly different proportions. These proportions would depend in part on the way in which the rise in incomes was distributed between income groups and classes, and in part on the varying intensities of consumers' demands for more of different kinds of things.

The Demand for Imports

If it could be said that a certain increase in total income, distributed in a certain way, would cause demand to expand in such amounts and directions that it could just be met by the full use of the existing labour and resources of production, the problem of securing 'full employment' would be simply that of bringing about the appropriate expansion in incomes and of distributing the increase aright. But in practice the structure of the economic system in times of depression never is perfectly adapted to meeting the demands which will arise if incomes are expanded, no matter what distribution of them may be achieved. This is partly because, when industry is normally adjusted to producing largely for export and many necessary goods are normally imported in exchange, increased incomes will tend to enlarge the demand for imports rather than for home products, and consumers will not wish to buy much more of the types of goods that have been mainly exported in the past. There may accordingly be considerable unused capacity in the export trades which it is difficult to use for increasing the supply of goods to the home consumer. Or, to put the matter in a different way, a decline in the demand for exports may leave resources, including workers, idle in the export trades, even though there may be a brisk demand for labour and plant to make goods of quite different kinds. A change in home demand, from whatever cause arising, can of course have precisely the same effect: I stress export demand only because it is as a rule more uncertain and liable to more sudden and irrational fluctuations.

Maladjustment

If either (*a*) the demand for certain kinds of exports falls off, or (*b*) home demand changes, so as to ask for less of certain kinds of goods, labour and capital are liable to be left high and dry in the industries directly or indirectly affected. If the fall in demand is expected to be permanent, obviously the right course is to limit the inflow of further capital and labour into the industries concerned, and if necessary to organise an actual transfer of resources out of them into other industries in which there is an expanding demand. It may, however, be impracticable to apply the existing machinery or buildings, or much of them, to other uses, and difficult to retrain the older workers for new jobs. Moreover, it will usually not do simply to stop new capital or workers from entering the industry; for the best chance of checking a further decline in demand, or even of promoting a recovery, may be to spend money on making the industry more efficient with new capital goods,

and a supply of young new entrants may be absolutely necessary to keep it going efficiently, even on a reduced scale. There may, then, be an intractable problem of redundant ageing machinery and of surplus older workers, even while new capital and labour are being brought in. Each industry which finds itself in such a predicament needs an orderly plan for scaling it down, and where possible for arresting its decline by improving its efficiency; and such plans may have to include arrangements for the retraining of surplus labour.

The Difficulties of Migration

They may also have to provide for the introduction of alternative industries *in the areas in which the declining industries were chiefly located.* It is usually even more difficult to move large bodies of workers from one town to another than to shift them from one job to another in the same town. When a declining industry has a high 'location factor' in a particular area, the effects of its decline may be disastrous on the entire neighbourhood, and ruin may spread through the whole range of local 'service' industries which have depended on the consuming power of those employed in the main industry of the area. Shopkeepers may be ruined; houses may be left derelict; local power, water and transport services may lose much of their value; the local builders may have to discharge their workers; a number of the local shops and the local hotel may have to close their doors. It may therefore be of prime importance to save an area from decaying when its principal industry declines; and this can be done only by securing the establishment of new industries and training the local labour to work in them. This, of course, implies the direction of new capital investment into the area, which may require special measures, if the place has got a bad name for being depressed, or seems to have no special suitability for any alternative industry.

We have been speaking of cases in which the decline of an industry is expected to be permanent. There are, however, instances in which it is regarded as likely to be only temporary—for example, when depression abroad leads to a fall in the sales of exports but is not expected to lead to a permanent loss of markets. In face of such a falling off, it would be obviously unwise to scale down an industry, or to check recruitment into it, in such a manner as to put obstacles in the way of its recovery. If its resources, or a part of them, can be used for alternative forms of production for the time being, so much the better. If not, it may be necessary to leave some of them temporarily unused—and some labour unemployed—unless it is thought better to keep

them fully at work and give the products away to those who need them but cannot afford to buy them. The United States, in the 'thirties, set up a Surplus Stocks Disposal Corporation under public auspices for getting rid of goods which it seemed necessary to produce, but which could not be marketed through the ordinary commercial channels.

Of course, even in face of a fall in markets which is expected to be temporary, it is always possible to move some of the surplus resources to other uses. Some machinery is adaptable to alternative forms of production: some labour can be shifted to other jobs without losing previous skill, or even to other areas without breaking up homes or leaving an undue proportion of elderly people in the area which is short of jobs. Some working capital can be released from the affected trades and transferred elsewhere. If the factors of production, including labour, were entirely rigid, it would be indeed a poor look-out. It is, however, evidently undesirable to go to the same lengths to shift resources in face of a temporary depression and of one which is expected lastingly to affect the industry concerned.

Structural Maladjustment after 1918

Great Britain came out of the first World War with an industrial structure seriously maladjusted. The steel, engineering, shipbuilding, and other industries directly connected with war production had increased their capacity, in some cases very greatly; whereas in many of the industries producing for ordinary consumers' demand plant had been allowed to become obsolete. The building industry, already depleted before the war, had lost most of its working force, whereas the coal-mines had received a large accession of new workers. The cotton industry had been scaled down, and had acquired practically no new plant since 1914. When war ended, there was an acute shortage of almost everything, except surplus war supplies; but when the short-lived post-war boom receded, it could be seen that in many industries the supplies of labour and equipment were out of adjustment to the demand. The iron and steel trades, heavy engineering, and shipbuilding underwent drastic contraction, and acute unemployment appeared in the areas dependent on them. The cotton industry, despite its wartime contraction, was found to have emerged with a labour force and a machine-capacity largely in excess of the reduced demands of the world market; for there had been a rapid growth of cotton manufactures both in the Far East and in the United States. Coal-mining underwent a prodigious

slump as exports and home demand fell off together. The building industry, having rapidly increased its labour force to cope with the acute shortage of houses, found itself smitten by the failure of demand when the State cut off subsidies in the slump, but recovered and began to expand again when the subsidies were renewed, after an interval, in 1923 and 1924. By 1924, as we have seen, the post-war slump in a strict sense was over, and production generally was swinging ahead. It then became possible to measure the extent of the structural maladjustment by taking account of the position in those industries in which unemployment remained high despite the general recovery. It could be seen, as soon as the temporary rise in demand due to the French occupation of the Ruhr was at an end, that there was a serious redundancy in coal, and an even worse one in shipbuilding. The cotton industry too had a large surplus, and there were bad patches in other branches of textile production and in engineering. These black spots of unemployment were marked out not merely by the numbers involved, but by the protracted periods over which unemployment lasted. In the years after 1924—indeed, right up to 1939—there were many thousands of workers in the depressed industries and areas who were out of work year after year, and could neither be got back to employment in their old occupations nor transferred to others. Indeed, there were not a few who in effect had no trades, having grown up to regard unemployment as their normal way of existence.

Gradually, these maladjusted industries underwent contraction. Capital investment in them fell off, in some cases almost to nothing. Indeed, it fell off too much, so that little was done to keep their technical equipment up to date, and inefficiency accentuated their decline. In some areas, young workers continued to enter them, because there were no other local industries to which they could go; but there was a drift of the younger workers, aided by the State policy of 'labour transference,' out of the distressed areas—a drift which would have been much more rapid if there had been more openings for employment elsewhere. Even so, in both coal and cotton, the decline in the entry of new workers to the skilled trades was in the end great enough to arouse fears of a coming shortage of skilled workers—fears which were realised in coal-mining when war put a fresh strain on the industry. Readjustment did slowly take place; but it would be difficult to imagine worse ways of bringing it about than those which were actually followed. For what happened was that each business, in its struggle to avoid extinction, staggered along for as long as it could, preventing any attempt at orderly reorganisation.

Businesses with high costs, based on obsolete plant, tried to undersell businesses with much lower costs, in a desperate scramble for orders. Workers clung on to underemployment, sharing out the scanty supply of jobs. New capital could not be raised, because there was too much old capital still in the field, and no one wanted to put money into industries in which cut-throat competition was the vogue. Presently, in one case after another, the stronger firms, aided by the banks, forced through some sort of reorganisation; but the result was usually the creation of a monopolistic combine set on making goods scarce and dear, and saddled with costs increased by the sums paid in buying up competitive firms in order to put them out of business and scrap their 'redundant' plant. Even to the end, some industries resisted any thorough reorganisation. The cotton industry was still in the first stages of its reorganisation plan when war broke out in 1939: the coal industry had not accepted the need for reorganisation even then. And this was after the second great inter-war slump—of 1931 and the following years—had administered a further shattering blow to these already maladjusted industries.

It has been proved, as fully as anything can be proved by experience, that the process of readjusting maladjusted industries by the methods of private enterprise, even with the State standing ready to second the endeavours of the business world, is disastrously slow-acting and inefficient. Its slowness and inefficiency have been responsible between the wars for a vast amount of avoidable human misery and destitution. They have suffered the lingering decay of whole regions once prosperous and productive —South Wales, the Lancashire textile towns, the great shipyard centres, steel areas in Cumberland and on the North-East Coast. We must not go back to that kind of pitiful experience after this war.

All through the period between the slump which followed the last war and the beginning of the second World War in 1939 the structurally maladjusted industries were gradually losing labour. Between 1924 and 1937 the numbers of insured workers fell in coal-mining by 392,000, or 23 per cent., in the cotton industry by 154,000, or 27 per cent., and in shipbuilding by 82,000, or 32 per cent. But even these reductions, though they brought unemployment rates a long way down below the swollen figures of the earlier years, still left unemployment in these and other industries at a level well above the general average of all trades. In 1937, generally taken as the 'prosperous' pre-war year, when the average level of unemployment in all industries was 10·6 per cent., the rate still stood at 23·8 in shipbuilding, at 14·7 in

coal-mining, and at 17·0 in textile bleaching and dyeing. In the spinning and weaving sections of the cotton industry, indeed, the rate had fallen to 11·5 per cent., Lancashire having been exceptionally successful in attracting other trades capable of absorbing female labour. For men only, the rate among cotton workers was appreciably higher, at 22·1 per cent.

Other industries which had lost labour to a considerable extent between 1924 and 1937 included the iron and steel trades, which had contracted by nearly 40,000 or 16 per cent., the woollen and worsted trades, which were down by 38,000, or 14 per cent., and the jute industry, which had fallen by 11,000, or 17 per cent. There had also been a fall of 29,000, or 17 per cent.—due partly to attempts at decasualisation—in the numbers seeking work at the docks.

The extent of structural maladjustment can be measured still better by comparing the percentages of the insured population unemployed in 1937 in different regions. At that date the rate of unemployment had fallen to about 6 per cent. in the more prosperous parts of Great Britain—that is, in the East and West Midlands and in the South-East. It was 7 per cent. in the South-West, and 8 per cent. in London. As against this, it was still over 24 per cent. in Wales, 19 per cent. in the Northern Region, 15 per cent. in Scotland, and 13 per cent. in the North-West.

Thus, twenty years after the end of the first World War, the structural maladjustments which it had left behind had still by no means been corrected. They had been mitigated, to the extent that many workers had drifted away from the affected industries and areas; but the difference in prosperity and employment between the areas which had been hard hit and the rest of the country remained, and in most cases the affected industries were still in a bad way, even after the long process of scaling down.

Maladjustment after the Second World War

What further legacies of maladjustment will the second World War prove to have left behind? There has been, of course, the same agglomeration of labour in the industries making munitions of war; and there has been the same problem of rapid demobilisation of these industries—shell-filling and work on explosives, aeroplane manufacture, and so on. There is not, however, the same need for a drastic reduction in steel-making capacity. Steel production in Great Britain was at about the same level in 1945 as in 1939, and, though this was 1,750,000 tons higher than the average output of 1935–8, the increase was secured by fuller use of pre-war plant rather than by new construction. Most of the

additional steel needed for the war effort was imported, and not produced at home. Nor, as we have cause to know, did the coal industry increase either its capacity or its effective working force. The output of cotton yarn fell to three-fifths of the very low average output of 1935–8. Outside the trades directly making munitions of war, including aeroplanes, the greatest expansion of capacity took place in the machine-tool industry, which is a branch of general engineering; and in this case there has been a great revolution in technique, enforced by the necessity of using a much higher proportion of unskilled labour. The existence of this increased capacity will obviously facilitate the rapid re-equipment of a wide range of civilian industries which need new machinery, and is also serving as a very useful basis for the development of exports to countries needing rehabilitation or setting out on projects of industrialisation. How much scaling down will be required will depend on the pace at which industrial development proceeds in the economically backward countries; and it will greatly help us both in balancing our international accounts and in easing the home transition from war to peace if the overseas demand for machine tools is brisk and well-sustained.

The re-sorting of the labour force following upon the end of the war has two main aspects, which cannot however be completely distinguished. These are, first, the demobilisation of the armed forces, the civil defence services, and the war industries, and secondly, the readjustment of the country's employment capacity to fit in with post-war needs. In mid-1944, out of a total male population (aged 14 to 64) of 15,910,000, the broad distribution was as follows: $4\frac{1}{2}$ millions in the armed forces (excluding prisoners and missing), a quarter of a million in civil defence, $3\frac{1}{4}$ millions in the war industries, nearly a million in agriculture, well over 3 millions in other basic industries and services, including 800,000 in mining and over a million in transport, under 3 millions in all other industries and services, and about a million retired, at school or college, unoccupied, or unemployed. As compared with 1939, there were 600,000 more males in the war industries (metals, engineering, shipbuilding, chemicals, etc.), about 100,000 fewer on the land, 66,000 fewer in the mines, 65,000 fewer in the public utility services, 184,000 fewer in transport and fisheries, 122,000 fewer in the food, drink and tobacco trades, and about 94,000 fewer in the national and local government services combined. These are all basic industries and services, which had lost relatively little labour. Of the industries and services less essential for war purposes, building had lost

694,000 male workers, textiles and clothing 253,000, other manufactures (including boots), 506,000, distribution 916,000, and other services, including general clerical work, 529,000.

On the face of the matter, if everything were to return to the position it had in 1939, there would have been 4,780,000 males to return from the armed forces, civil defence, and the war industries to other occupations or to unemployment. Of these, 3,527,000 would have been absorbed in occupations which had lost labour, and 1,253,000 would have failed, or would not have wanted, to find jobs, either as employees or in any other capacity. Over 1,500,000 would have gone back to distributive or commercial work, or to the public services, 694,000 would have gone back to building or civil engineering, and the remainder would have been distributed among a wide range of occupations.

All this, however, is on the assumption that there would be no change, as a consequence of war conditions, in the employment of women. If everything were to go back in their case to where it was, there would have been 1,868,000 women to be discharged from the services and the war industries, and a further 882,000 from other occupations, making 2,750,000 in all.[1] But there would have been only 400,000 jobs available for them outside domestic service. There would thus have been 2,350,000 to spare, for domestic work or for none, as compared with an unemployed roll of about 300,000 women in 1939. In fact, the number of unoccupied women and domestic servants together (aged 14 to 59) had fallen in 1944 by about 2,420,000. The change in the number of domestic servants during the war is unknown;[2] but obviously it accounted for a large part of the increase in other forms of women's employment, the rest being mainly due to the employment of married women, and only a small part to that of single women who would have been unoccupied but for the war. The addition to the number of women likely, as post-war conditions settle down, to be seeking jobs in occupations other than domestic service therefore depends mainly on what happens to domestic service and on the extent to which married women seek to continue in employment.

Would a return to the pre-war distribution of workers by occupations have been likely to turn out badly wrong in relation to post-war needs? In at least one industry, it would obviously have fallen much below what is required. Building and civil

[1] Part-time war workers have been counted each as half a full-time worker in these calculations.

[2] There were 1,554,000 indoor domestic servants at the Census of 1931—the latest available figure.

engineering not merely need back the 694,000 men they lost, but call for a substantial addition to their pre-war working force of 1,294,000. They certainly need together as many as 1,750,000, and perhaps more;[1] and they need mainly men, and are not in a position to substitute women to any appreciable extent. On the other hand, the distributive trades will obviously have to do with many fewer men than the 1,888,000 they employed in 1939, and can substitute women to a very large extent; and there can also be a considerable substitution of women for men in commercial occupations, and in the services of local and national government. I do not here include the large number of women teachers who will obviously be needed as fast as they can be trained, as they will be not substitutes for men, but additional recruits to the teaching profession.

Pre-war Trends and Their Continuance

The pre-war trends in occupational distribution were strongly towards higher numbers of workers in the distributive trades, in road transport, in hotels and restaurants, in laundries and in the entertainment services. These groups between them attracted 1,130,000 additional insured workers between 1924 and 1937, and of this number 709,000, not including small shopkeepers, went into the distributive trades alone. Building attracted another 314,000, and the electrical trades 174,000. Motor manufacture attracted 148,000 and the minor metal trades over 90,000. As against this, the insured workers in coal-mining declined by 392,000, in cotton by 154,000, and in shipbuilding and marine engineering by 94,000. In all manufacturing industries, taken together, the increase in the number of insured workers was only 540,000, or less than half the increase in the group of service occupations mentioned above. There was, in effect, a marked shift away from the basic and export industries towards the services and building.

Will these tendencies continue? The increase in building and civil engineering certainly will; but the prospects in the distributive trades are much less certain. There is obviously room, even if small shopkeepers remain in undiminished numbers, for much economy of man-power in distribution, at both wholesale and retail stages; and it seems likely that its growth will be at any rate considerably slowed down. It had in fact been slowing down for some time before the war. On the other hand, the growth of the electrical trades, of motor manufacture, of the light metal trades, and of road transport will almost certainly continue;

[1] See pp. 615f.

DISTRIBUTION OF MAN-POWER IN GREAT BRITAIN, MID-1939 AND MID-1944[1]

	Males			Females			Total		
	1939	*1944*	*Change*	*1939*	*1944*	*Change*	*1939*	*1944*	*Change*
I. (A) Armed Forces	477	4,502	+4,025	—	467	+ 467	477	4,969	+4,492
(B) Civil Defence (whole-time)	80	225	+ 145	—	56	+ 56	80	281	201
Total	557	4,727	+4,170		523	+ 523	557	5,250	+4,693
II. War industries	2,600	3,210	+ 610	506	1,851	+1,345	3,106	5,061	+1,955
III. Agriculture	1,046	948	— 98	67	184	+ 117	1,113	1,132	+ 19
IV. Mining	868	802	— 66	5	13	+ 8	873	815	— 58
V. (A) National and local government	936	842	— 94	449	963	+ 514	1,385	1,805	+ 420
(B) Public utility services	225	160	— 65	17	32	+ 15	242	192	— 50
Total	1,161	1,002	— 159	466	995	+ 529	1,627	1,997	+ 370
VI. Transport and fishing	1,222	1,038	— 184	51	212	+ 161	1,273	1,250	— 23
VII. Food manufacture	391	269	— 122	263	240	— 23	654	509	— 145
Total III–VII	4,688	4,059	— 629	852	1,644	+ 792	5,540	5,703	+ 163
Other Industries and Services									
VIII. Building and civil engineering	1,294	600	— 694	16	23	+ 7	1,310	623	— 687
IX. Textiles	401	221	— 180	601	405	—196	1,002	626	— 376
X. Clothing	138	65	— 73	449	284	—165	587	349	— 238
XI. Boots and shoes	108	64	— 44	57	43	— 14	165	107	— 58
XII. Other manufactures	1,004	542	— 462	440	414	— 26	1,444	956	— 488
XIII. Distribution	1,888	972	— 916	999	956	— 43	2,887	1,928	— 959
XIV. Other services	965	436	— 529	917	977	+ 60	1,882	1,413	— 469
Total VIII–XIV	5,798	2,900	—2,898	3,479	3,102	— —377	9,277	6,002	—3,275

[1] Figures rom Cmd. 6564. Each part-time woman worker is counted as one-half.

and so probably will that of the hotel and restaurant and entertainment trades. If all these increasing occupations had gone on growing for the past seven years at the average rate of 1924–37, they would already have absorbed nearly a million and a half additional workers. Even without the distributive trades, they would have absorbed more than 900,000.

Seen in the light of these figures, the sheer *labour* problems of redistributing the population so as to correct structural anomalies do not look too formidable. There should be no great difficulty in finding and where necessary training the right numbers of workers for the jobs that will be needed—provided that the jobs are there for them, and in the right places. The fundamental difficulties in the way of structural readjustment are not, save in a few special cases such as the building crafts, those of occupational skill. They are rather the difficulties of right geographical distribution of the openings for employment and of provision of adequate, up-to-date machine equipment and other instruments of production and of efficient business organisation. It is necessary both to bring about an adequate expansion of the facilities for employment in the industries and services for which there is an expansible demand, and to secure that the openings shall be rightly distributed in relation to the numbers and qualities of the persons seeking work.

The Location of Industry

It may be thought that, for a period after the return of peace, population will be particularly fluid and ready to go anywhere in pursuit of an eligible job. But this is not the case. In the first place, there is the acute shortage of houses, which compels people to settle, or to stay, where they can find accommodation. Even if house-building is taken in hand very actively, this shortage will be bound to persist for a considerable time. Secondly, workers are not single, detachable units, who can be dispatched quite simply wherever they are asked for. We learnt to recognise this fact in wartime, even when we expected people to put up with the separation of families and the life of grossly overcrowded lodgings. In time of peace, it is not possible to 'direct' workers against their wills, or to ignore their discomforts to the same extent—the more so because they are heartily sick of separation from homes and friends and strongly resentful of any policies which seem to them to threaten further upsets. It is therefore necessary to secure that, as far as possible, each place offers *balanced* openings for employment, with the right proportions of jobs for men and women, for workers of different ages, and for workers of different degrees of skill and different kinds of dexterity—all, of course, in relation to

the industrial traditions or war-acquired habits of each local population. Unless this is done, the right theoretical distribution of occupational openings for employment over the country as a whole may work out quite wrong in practice. This involves public control over the location of industry, in order to bring about the right balance of employment in each place.

The other factor is that of equipment. This is, of course, the same as the problem of 'investment' which has been discussed in a previous chapter. In relation to the question of structural maladjustment, what it involves is a deliberate plan of industrial reorganisation, based on thinking out the right size for each industry in relation to post-war markets, the right scales and methods of production in accordance with the most up-to-date techniques, and the right distribution of plants in relation to sources of materials and access to markets as well as to labour. It involves scaling down deliberately those industries which need scaling down, in such a way as to put out of use the least eligible plants, with all the factors of eligibility taken into account, and not those plants which—perhaps for reasons quite unconnected with their productive efficiency—can be most easily driven into bankruptcy or bought up and demolished by their competitors. It involves expanding to the optimum the industries which need expanding, because consumers want their products, and not allowing monopolists to restrict development where they see prospects of higher profits from keeping things scarce and dear. In effect, it involves comprehensive economic planning, with the welfare of the consumers and producers as the linked ends in view.

The problem of structural adjustment includes, then, not only the putting in order—including, where necessary, the orderly contraction—of industries which were out of adjustment in 1939, or may be so now that the war is over, but also the planning of the development of openings for employment so as to ensure both sufficiency in the aggregate and right distribution in accordance with local needs and resources.

The Need for Planning

This problem, as we have seen already, is bound up with that of town and country planning, though such planning is commonly thought of mainly as a matter of architectural design, of zoning and density of dwellings to the acre, of green belts and open spaces, and of the use of land. It is all these things; but where is the sense of trying to plan men's living room without planning also for their means of life? Most people live in places because they have, or expect to find, jobs in them, or near by; and town

design should consist fully as much of planning the employments of the people as their amenities. How can the architect town planner tell what sort of town to plan until he knows what its industries are to be? No doubt, in dealing with the problems of replanning an existing town he *can* take its existing industries for granted; but to do so will very likely cause him to plan wrongly, especially if these industries are decaying, or are lopsided in respect of the employment they offer. New towns ought obviously to be planned, as the Russians have planned theirs, industries and all; but the need exists hardly less in many old towns, which cannot be planned for good living unless they are planned for work as well.

It is a tragic gap in our provisions for reconstruction that there is still no effective power in the hands of the State or of any public body to plan industrial development as a whole. It is an absurdity that we have a new Ministry of Town and Country Planning that lacks the smallest influence over the location of any industry, and that the Board of Trade, which is responsible, as far as any public department is responsible, for considering questions of industrial location, acts separately from the Ministry of Town and Country Planning, and has in any case little power to act except in the specially scheduled depressed areas. What we are in danger of allowing to happen, unless we put this right, is that, even when and if the urgent problems of industrial reorganisation are taken in hand, each industry will be treated separately and dealt with on lines which disregard its place in an orderly system of local and regional planning. The structural maladjustments of the industrial system can be set right only by considering the problems of industries and areas together, and by making and executing plans which will secure a right balance not only between the various branches of production and service, but also between area and area. Moreover, this applies to the prosperous just as much as to the depressed areas; and that is why the Industrial Development Act of 1945[1] cannot be regarded as in any way solving the problem.

What I have tried to show in this chapter is that structural unemployment arises not only out of a wrong proportion of capital equipment applicable to different forms of production, or a wrong balance in the training of the labour force, but also, fully as much, from bad local adjustment of the means of employment to the size and composition of the local population. Let me repeat, in conclusion, that it is usually easier for people to take to new jobs than to shift their place of residence into a new neighbourhood,

[1] See p. 623ff.

and that, even where geographical shifts are practicable, they often involve grave human losses, by breaking up local communities and by removing from centres which are allowed to decline the younger and more vigorous workers, leaving an undue proportion of the old, the weakly, and the lethargic behind. The problem of structural unemployment is, above all else, a problem of right planning of the location of industry.

CHAPTER V

WHAT THE STATE CAN DO

WE HAVE NOW GIVEN AN objective account of two main kinds of unemployment which beset the British people, as well as the peoples of other capitalist countries, between the wars; and in our account of structural unemployment due to maladjustment we have been led on to consider to some extent why things go wrong, and not merely how. On the other hand, our account of cyclical unemployment was deliberately made mainly factual, and did not extend to any discussion at all of the reasons why booms and slumps occur. We saw that, if and when a slump does occur, we may expect its incidence to be most severe on those industries which either make capital goods, or produce largely for export, or do both; and we know from observation of past fluctuations that the decline in exports often, if not always, precedes a really serious fall in production for the home market. As far as the industries which make capital goods are concerned, this is probably accounted for, at any rate in part, by the fact that orders for such goods are usually placed further ahead and take longer to execute than other orders, so that a longer period elapses before production and employment (as distinct from advance order books) show the full effect of a turn in economic affairs.

These considerations, however, leave us as far off as ever from an explanation of the reasons why slumps occur at all, or why even in relatively good years the demand for labour is still less than the supply. In a world of rising population and of continuous technical progress in one field or another, the natural thing would seem to be a sustained expansion of output; and we are left asking why slumps occur, and why demand falls short, just as much in the dark as we were when we set out on our preliminary exploration of the facts.

Now, it is quite possible to put this vexing question aside as practically unimportant. If we know what happens in periods of depression, we may, even without knowing *why* it happens, be able to take some action to prevent it. For example, if we know that depression is likely to be peculiarly severe in the constructional industries, we can take steps to give these industries a stimulant whenever they show signs of flagging, either by the

institution of 'public works' under the auspices of the State or of other public bodies, or by subsidies or inducements to business men with the object of increasing the volume of 'investment,' or by State investment in privately-owned industries, or by any other available means. If, by any method, we succeed in keeping total investment in capital goods as high as we want it, this should suffice to check the main tendencies towards decline in the demand for capital goods; for it will serve to sustain the purchasing power of the producers of capital goods who would otherwise have been thrown out of work. No doubt, this may be less easy than it sounds; for if private capitalists are very unwilling to invest in capital goods—as they were in the United States in the days of the New Deal—the State may have to spend, or subsidise, or somehow stimulate very extensively in order to produce the required result. But it seems as if a willingness to go far enough with the process would be certain to secure the desired effect.

Alternatively, the State can endeavour to affect the demand for capital goods, not directly, but indirectly by stimulating the market for consumers' goods. If the demand for consumers' goods can be kept from sagging, the factors which bring about an aggravated fall in the demand for capital goods will not come into play; for business men will order enough capital goods to make it possible for them to supply the consumers' market with all the goods it seems ready to take. Either course, however, comes up against certain difficulties connected with the special position of the export trades. If the markets for exports have seriously fallen off, as they usually have in a general depression, the power to buy imports is impaired—for imports are normally paid for with the proceeds of export trade, or at least these proceeds form a large part of the means of paying for them. Now, the easiest way of reducing the demand for imports within the restricted limits set by the fall of exports is to make the consumers so poor that their ability to buy imported commodities falls off. This is the old, classical way of meeting a depression—by accepting it as an 'act of God' and cutting down home purchasing power in order to make the international accounts balance. This, however, is exactly the outcome which we are setting out to avoid; for this process of impoverishment means in practice the throwing of large numbers of workers out of employment without any attempt to find them work at a living wage.

Imports and the Balance of Payments

If the State, by stimulating the production of either capital goods or consumers' goods, or of both, sustains the purchasing

power of the consumers—who receive incomes for producing these things—demand is bound to be higher than it would otherwise be, and to include a sustained demand for imports. If, owing to depression in other countries, the demand for exports remains low despite the favourable effects of the maintenance of the import market of the country which is following a policy of high employment, there is bound to appear an adverse balance in that country's international accounts. Where the country in question has plenty of gold, or possesses foreign capital assets some of which it can sell off in order to meet the deficit, it can easily stand such an adverse balance even for a succession of years. Where it has no such resources to fall back upon, or not enough of them, it must find some other country willing and able to make it loans, or, if it cannot, must restrict its own imports, whether it will or no, within its reduced capacity to pay in foreign money.

Such restriction of imports has, of course, inevitably a depressing effect on other countries. It tends to make the world economic situation worse. But it may be unavoidable, and it is a mistake to suppose that it acts more adversely on the world situation than the traditional alternative policy, of cutting down home incomes and employment in order to reduce the demand for imports. The two alternative policies, in effect, act on the world situation in precisely the same way. Either depresses other countries, by restricting the markets for their exports. The method of limiting imports, without reducing home purchasing power, has, however, all the balance of advantage in its favour; for it means that the home producers and consumers, instead of being thrown out of work and forced to reduce their consumption, continue to earn wages and are free to spend them without restriction on such supplies as are available. Imported supplies will be short, and it may well be necessary to control their prices, or even to ensure some order of priorities in the distribution of them; but there will be no limit to home-produced supplies, save to the extent to which they require imported materials, or are limited by the shortage of home labour or other means of production. In effect, this method will bring about, instead of a fall in total production and consumption, a diversion of home productive effort to producing for home demand, and of home consumption towards home-produced goods and services.

Such diversion is not without difficulties. Some goods, such as cheap cotton goods, which are made largely for export, are not much wanted in the home market; nor can the machinery and the skilled labour normally used in making them be easily turned over to making goods which the home consumers do want. Home

industry will need to undergo considerable adaptation if it is to produce less for export and more for the home market; and the change-over is bound to take time. Indeed, in some respects it cannot be made in order to meet a merely temporary emergency. If the structure of industry is once altered so as to adapt it to the needs of the home market under conditions of restricted importation, it will not be possible to change it back again suddenly when the emergency is at an end. Changes once made will have a tendency to 'stick'; and, under private enterprise, the owners of the capital embarked in the new forms of capital goods will demand continued protection for their investments—or, quite probably, will refuse to embark capital in new ventures until they have been given what they regard as adequate guarantees. Thus, measures designed to protect home employment and standards of consumption during a depression are apt to turn into instruments for protecting uneconomic conditions of home production when the depression is over.

If a depression in world markets is expected to be relatively short, it may not be worth while to attempt any considerable turnover of home effort to alternative forms of production which require expensive new equipment. It may be preferable to make the best of the productive equipment that is available, and to use it for making goods which are less keenly demanded than those which could be made with new equipment and retraining of workers for alternative jobs. To the extent to which this has to be done, consumers will not get what they would like best; but they will get a nearer approach to what they like than they would if depression were forced on the home market by the traditional forms of pressure. Most of us could do with more clothes, even if we should prefer to see more American films or smoke more cigarettes made of American tobacco. It is much better to have a larger supply of some things than to be made to go short all round.

Of course, if the lack of balance between imports and exports is expected to be permanent, it will be worth while to make the necessary shifts in productive organisation, so as to replace a proportion of imports by home products not merely for a few months or years, but permanently. This, however, is a somewhat different question; for we are at present discussing only what happens when a country, faced with a sudden fall during a depression in its exports, and therefore in its power to buy imports, endeavours to keep up home employment and consuming power instead of accepting the depression as an 'act of God.'

It will obviously be much easier for a Socialist than for a

capitalist country to make the adaptations which are needed in order to maintain employment and consumption in face of a foreign crisis. A Socialist country does not need to induce private persons to invest capital in the home industries which need developing: it can undertake the investment itself. Moreover, a Socialist country can much more simply decide what imports to allow in, and how to allocate supplies of imported foodstuffs and materials to processing industries and supplies of finished goods to distributing agencies. It can buy in bulk what imports it needs, and can sell them at what prices it chooses, averaging where desirable between the cost of imports and of home-produced products of the same kinds. It need not be afraid of profiteering either by importing merchants or by the producers and distributors of home-produced goods. Most of the difficulties in the way of maintaining home employment and consumption in face of depression in the rest of the world are difficulties not of economics as such but of *capitalist* economics.

It is, however, clearly desirable not to restrict imports more than is necessary, either under a Socialist or under a capitalist system. Under some conditions, an adverse balance of payments is not a good enough reason for restricting imports. When a country has foreign assets which it can use, it may be best to use them in the hope of helping to drive depression away from other countries, instead of making it worse. There is nothing very dreadful for a creditor country in using up part of its foreign capital assets in paying for current imports, as long as it has them to use for this purpose: nor does such a process necessarily imply any 'living on capital'—for the loss of foreign assets may be, over the same period, more than made good by fresh investment at home. A country is no richer if it invests a million pounds abroad than if it invests the same amount in building up its own productive power at home: nor is it any poorer if it sells off a million pounds of its foreign holdings and at the same time spends a million pounds on home capital developments. What a country which finds itself short in its means of paying for current imports cannot avoid is taking action to prevent its citizens from investing capital abroad at their own discretion; for every such act of overseas investment necessarily imposes an additional strain on the national balance of payments.

In general, a country which possesses substantial foreign assets can quite well afford to allow its balance of current payments to become adverse for a time, and to maintain its own standards of employment and consumption when other countries are depressed, without seeking to modify its economic system in such

a way as to cut down imports below the normal—though it may need to take steps to prevent a sudden increase of imports due to 'dumping' by countries which have lost for the time being a large part of their normal foreign markets. If, however, the strain on the balance of payments becomes very great, or is continued year after year, and nothing can be done to enlarge the sale of exports so as to provide additional means of payment, there may be nothing for it but to restrict imports and alter the structure of home industry and agriculture in order to supply a larger proportion of the consumers' needs with domestic products.

Note the qualification 'if nothing can be done to enlarge the sale of exports'; for this is a very pertinent point. It may be possible, in periods of slack international trade, to arrange with countries which can supply needed imports for them to take certain values of exports from the receiving country in exchange, either by direct barter, or by some arrangement whereby these countries agree to place certain orders in the receiving country, or in the last resort are paid for their own exports only in credits to be used exclusively, or up to some proportion of the total, in buying products of the receiving country. Great Britain in the 'thirties had agreements with the Scandinavian countries, which undertook in return for what they sold to British buyers to buy certain proportions of their coal from the British industry. The Nazis carried these methods to much greater lengths, making all sorts of 'bilateral' agreements with other countries for the receipt of foodstuffs and materials in exchange for German manufactures. Many of these purchases were open to strong objection, as involving unfair bargains for the Nazis' suppliers. But they are not unfair in essence; and it is infinitely better to conclude reasonably fair arrangements of this kind than to allow depression to take its course, with consequences disastrous to both the parties.

A country which desires, in a depressed world, to maintain its own standards of employment and consumption may be forced to make 'bilateral' arrangements of this kind, as much less restrictive and damaging than the sharp contraction of total imports which is the only alternative open to it. Of course, it would be much nicer if no such necessity were to arise: that is, if other countries were not depressed. But this is a matter for them. It is open to any country which possesses at all an advanced and diversified economic equipment to decide to follow a policy of high employment, and to counteract threatening depression by taking steps to maintain the level of investment, or consumption, or both, within its own frontiers. If countries fail to do this, they have

nothing to complain of when countries that are doing it take the steps which are needed to make their domestic policies effective.

Investment, Savings and Consumption

We come back, then, to the point that a country threatened with a fall in the level of total demand, from any cause, can set out to maintain demand by stimulating either investment or consumption, or both together. If this can be done in face of a *fall* in demand, it can obviously be done equally in order to increase demand when there has not been a fall—that is, to prevent the type of structural unemployment which exists in relatively good years, as well as that which occurs in times of slump. We must now ask what are the appropriate ways of doing any or all of these things. In other words, by what means can the State, in an economy mainly conducted on capitalist principles, set to work to maintain 'full employment' in face of a threatened slump or of a persistent shortage of demand? In order to achieve this, the State must place itself in a position to regulate the total volume of production and employment by indirect as well as by direct means. This can be attempted in several different ways. When the willingness of private business to employ labour falls off or falls short for any reason, the State can

(*a*) employ labour itself by undertaking public works on a scale sufficient to increase total employment to the required level;

(*b*) encourage private employers by means of subsidies to take on more labour and to produce more goods;

(*c*) remit taxation, and thus encourage those whose taxes are reduced to spend more;

(*d*) pay out increased incomes in such forms as pensions, family allowances, and social service benefits generally, or in any other way it chooses, and thus give the public more money to spend;

(*e*) provide free services, or sell goods and services to the public, or to some sections of the public, at reduced prices, so as to stimulate consumption.

All these methods involve considerations of public finance. If in slack times the State undertakes public works, or pays out subsidies, or grants additional social services either in cash or in kind, it must do these things either out of borrowed money[1] or

[1] Under the head of 'borrowed money' I include money manufactured by the banking system and lent to the State. If the State owns the banks, it may in appearance only be lending to itself; but it is in effect levying a fixed loan on the real income of the entire people.

out of additional revenue raised by taxation. If it borrows the money, or part of it, the effect will be to take up and apply to current spending funds which were not being spent before, and thus to increase the national income and promote additional employment. If, on the other hand, the State raises the required money, or part of it, by increased taxation, everything will depend on the incidence of this taxation, i.e. on what classes it falls. To the extent to which it falls on those who meet it by reducing their saving rather than their consumption it will call the wasted savings into productive use: to the extent to which it falls on those who meet it by reducing their consumption it will fail of its effect, because it will cancel as much effective demand as it creates. Accordingly, the additional taxation can be effective only to the extent to which it is levied on rich persons or on companies and other collective bodies which have been placing sums to reserve instead of spending them on real investment. It is difficult in practice so to arrange taxes as to make them fall exclusively or mainly on savings rather than on consumption; and accordingly increased taxation is not in general a precise or very efficient instrument to use in endeavouring to increase the size of the national income and absorb unemployed productive resources. But we must return to this point later.

It is a well-known and well-established fact that, in general, poor people spend on consumption a higher proportion of their incomes than richer people, who can save with much less sacrifice. This general statement, no doubt, calls for some qualification. A large part of the savings of the community, in normal times, is made not out of personal incomes, large or small, but out of the profits of joint stock concerns. Such concerns usually distribute only a part of their profits to their shareholders: they keep back the remainder and place it to 'reserve' funds, and these funds constitute nowadays a substantial fraction of the total national saving. In effect, these savings belong mainly to well-to-do people; for they form part of the shareholders' property, though they are not divided up as personal incomes. Moreover, in the middle ranges of income, and to a smaller extent down into the lower ranges, considerable savings are made in the form of insurance or other regular premiums. I do not mean what is paid in under State schemes of compulsory insurance, for that is to be regarded rather as a form of taxation. I have in mind, first, life and endowment insurances of all sorts, and secondly the instalments paid by those who are buying their houses through Building Societies or Insurance Companies. These savings, of course, come out of personal incomes, and indeed constitute the

greater part of the current accumulations of the poorer savers.

Now, the savings that are made in these ways mainly by persons in the middle ranges of income are quite exceptionally stable, because they are made under contracts whereby the saver binds himself to go on making regular payments over a number of years. If his income falls off, he still, as long as he can, keeps up the payments, at the cost of curtailing his current expenditure on consumption. Thus, a large part of the normal flow of small savings is very regular. A depression may check the inflow of fresh savers, but it will not, unless it is very severe, cause more than a small proportion of those who are already saving under fixed arrangements to suspend their payments. Accordingly, anything which reduces the income of this kind of saver is apt to react very greatly on the demand for consumers' goods and services.

Companies, in general, will tend to put less to reserve in bad than in good times; and some companies will withdraw sums from past reserves in order to maintain their dividends. Company savings are a good deal less stable than 'instalment' savings; but this is not the only point that matters. In good times, when prospects of profit are favourable, companies will tend to invest their reserves in expanding their scale of business, or in buying other productive assets; whereas in bad times they may leave their reserves lying idle, or 'invested' in gilt-edged securities. If this happens, the sums 'saved' by them do not create any demand for goods or services, and stand for so much purchasing power withdrawn from circulation and left for the time being unused. Naturally, such a situation means depression and unemployment in the industries which exist to supply capital goods; and from them the depression spreads elsewhere, as their workers are discharged and have less money to spend.

As for the richer savers who save out of personal incomes, they will tend greatly to reduce their savings when their incomes fall off; for they will in many cases be in the habit of saving whatever incomes they get beyond what is needed to maintain their customary standards of consumption. Their savings are apt to be a residue, and therefore to fluctuate greatly from time to time.

Tax Remission and 'Deficit Financing'

Now if the State decides to act in such a way as to offset a fall in people's spending power due to the onset of depression, one simple method is for it to *remit taxation*, and thus to leave the taxpayers with money to spend instead of handing it over to the State. This, of course, involves that the State, instead of making

its budget balance, must borrow money from members of the public in order to cover the deficit. It will be able to borrow the balances which big savers, including companies, are reluctant to invest in business development because the prospects of profit are not thought sufficiently encouraging. The higher level of total spending, public and private together, resulting from this process, will improve the prospects of profit, and will make business men readier to invest. When they are in a good enough mood, the State will be able to reimpose the old level of taxation, and even perhaps to repay what it has borrowed by raising taxation for the time to a higher level.

This process is known as 'deficit financing,' whether the State applies the borrowed money to tax remissions or to some alternative use. Suppose it does remit taxes, with the main purpose of stimulating consumers' demand, what taxes should it remit? Clearly, those which fall most directly on consumption, such as indirect taxes on the necessaries of life. If these are taken off so that a wide range of consumers' goods become much cheaper, consumption will obviously rise sharply. Even so, not all the difference will be spent on consumption; for it will be open to anyone, instead of buying more consumers' goods, to increase his savings. But consumption will clearly benefit most.

On the other hand, if the main remission were given to the larger direct taxpayers, a much larger proportion of the difference would be saved, instead of being added to consumption; and the additional saving might carry with it no proportionate addition—or even, in the extreme case, no addition at all—to the demand for capital goods. The act of saving out of income is in itself an entirely negative act: it results in a demand for goods only when the 'saved' money is actually *invested* in buying new capital assets. If, in the situation we are envisaging, there is already among the recipients of income a tendency to 'save' more in the aggregate than there is any willingness to invest in new productive assets, the policy of remitting taxation in such a way as chiefly to add to savings will be quite ineffective. It could, for example, be merely circular, the beneficiaries of the tax-remission simply lending to the State the sums recovered from taxation, and the State applying these sums to meet its current expenditure as loans instead of revenue. This would be the worst of both worlds, as the State would then be paying interest on the sums it had given away.

A third possibility would be to remit taxes on company reserves, which are at present chargeable to income tax at the standard rate. This again might merely lead to more superfluous money 'saving,' unmatched by real investment, unless the tax were

remitted only on proof of the investment of the reserves in really new capital assets. In that event, however, the tax-remission would go to stimulate not consumption but investment—which, as we have seen, is the alternative policy open to the State if it decides to use tax remission as an instrument.

We may conclude that where, under a system of private capitalism, the State decides to use the method of tax-remissions to increase consumption, it can best act by remitting indirect taxes on necessary goods and services; and, where it is setting out to increase investment, it can best act by remitting taxes on company reserves. The policy of tax-remissions is, however, so difficult to arrange fairly or effectively in practice that it is usually preferable to leave the taxes unaltered in a depression, and to resort to other methods instead.

State Spending—Public Works

Tax remission is not by any means the only instrument which it is open to the State to use. Alternatively, the State can increase its own spending, and can raise the additional money, not by taxation, but by borrowing. It can then use the sums thus raised to execute capital works, such as the building of roads, bridges, waterworks, power-stations, houses, or factories, either under its own auspices or under those of local authorities or public corporations of one sort or another; or it can pay out incomes to the consumers, or to any section of them, or provide them with free or subsidised services, or pay subsidies to private suppliers in such a way as to cause them to reduce the prices of their wares. Again, it can set out to stimulate directly either investment, or consumption, or both, knowing that a stimulus to either will be bound to have some reaction on the other.

If, as will usually be the case, there is at the inception of the new policy severe unemployment in the industries which make capital goods—or at least the threat of it—it will obviously be the easiest and most direct course towards countering the evil to apply the main stimulus to the demand for capital goods, by embarking on 'public works,' such as housing, road and bridge building, and the construction of public utility undertakings, and/or by procuring the erection of new factories or the re-equipment of industries which are behindhand in technique with new and improved capital instruments. The first of these courses is the easier in a capitalist country troubled with democratic scruples, because it does not involve subsidies to 'private enterprise.' The roads, bridges, houses, and public utility undertakings can be owned by the State or its agents, and the benefit of the investments can thus

accrue directly to the public. On the other hand, subsidies to 'private enterprise' are difficult, if not impossible, so to arrange that they do not involve unnecessary presents to businesses that could do quite well without them, or become the means of exacting monopoly profits by firms which succeed in intercepting a part of the subsidy instead of passing it on to the consumers. This can be fairly well prevented in time of war, with the aid of the strict controls that are then enforced, and especially because the State is then the bulk buyer of many of the materials involved. It is very much harder to accomplish in time of peace, except under a system involving much greater State control than has hitherto co-existed with systems of capitalist enterprise.

It is naturally important, in stimulating activity in the industries which produce capital goods, to apply as far as possible a wide range of stimuli, in order to facilitate the full use of existing skills and business set-ups. This need often, in capitalist societies, runs counter to the desire of the Government to avoid any forms of 'public works' which may have an appearance of competing with capitalist enterprise. If the State were to order plant for making consumers' goods, and were to set up as a producer of such goods side by side with the existing manufacturers, the cry of unfair competition would at once be raised. It is therefore easiest for Governments to embark on those types of public works which are least competitive with profit-making industry. No private interest objects, save on grounds of 'economy,' to the State building as many roads as it pleases; and roads are accordingly a very favourite form of works designed to employ the unemployed. There is more objection to publicly provided houses, but not if the State confines itself to the cheapest kinds of housing, in which private enterprise is apt to find little profit. But, unfortunately, road work employs mainly unskilled labour, and neither roads nor cottages do much to help any important constructional industry except building. For effectiveness, a much wider policy is needed—and above all one which will act favourably on the demand for steel and heavy engineering products. Where the railways are publicly owned, the State can improve matters by undertaking railway development; and it can also rebuild publicly owned ports and harbours and other transport installations. Where it owns the electricity supply system, it can embark on plans of power development; and it can create new water-supply undertakings, drainage works, and improved telephone equipment. Where, however, any of these services is in private hands, stimulus has to take the shape of subsidy in one form or another, and this, as we have seen already, is apt to raise both

economic and political difficulties. Similarly, shipbuilding, which is apt to be the most depressed industry of all, can be helped only by speeding up naval construction, or by resort to subsidies such as were given to British shipping concerns on more than one occasion between the wars.

The Effects of Socialisation

These conditions relate, of course, to societies organised on capitalist lines, and are not applicable to Socialist societies. They would, however, apply in some degree to societies in which the State had taken over even a considerable range of industries, as long as there remained in being a capitalist sector large enough normally to account for a considerable fraction of the total of new investment. Wherever a part of the process of investment is carried on in the capitalist way, the total amount of investment will be affected by changing expectations on the part of the capitalists, and a deficiency of demand in the industries making investment goods will be liable to arise when such expectations are low. It will, of course, be much easier for the State, when it owns and controls a wide range of industries, to increase investment by undertaking additional 'public works' in these industries, without the difficulties which arise when the stimulus has to be administered largely by way of inducements to private business. A policy of full employment will work much more easily where this possibility exists. Even in such circumstances, however, it may not be possible to apply the required all-round stimulus to the investment goods industries whose output has declined without measures designed to appeal to the owners of those which remain in private hands. If the State owned and managed, directly, or through some form of Public Corporation, say, the main branches of transport, the fuel and power industries, and a very few others; if, directly or in conjunction with the Local Authorities, it were the principal building agency for new houses, as well as for schools and other 'public service' buildings, a policy of expanding 'public works' in times of slack employment would be very much easier to carry through than it could be where these industries and services were left within the realm of 'private investment.' For this group of industries, added to such undisputed public services as the Post Office, road and bridge-building, water-supply, hospitals and other public health constructions, accounts for a high proportion of total investment in normal times, and would allow room for a reasonably wide and balanced programme of expansion without the need to offer special inducements to 'private enterprise' to expand investment. It would not even be necessary, for

this purpose, for the State to own either the building industry or others belonging to the constructional group; for it could increase their activity simply by placing additional orders with them on behalf of the publicly-owned industries and services.[1] Without this range of public demand for the products of the industries producing investment goods, it would be necessary on a far bigger scale to stimulate private investment by indirect, and for the most part dangerous and socially unsatisfactory, expedients.

If the State had these semi-socialist powers, and used them to the full, the effects of its action in increasing investment in the 'socialised sector' would be to increase purchasing power by the sums paid out, and thus to add to the demand for consumers' goods and services. This in turn would react on private investment by making it more worth while in other industries to install new means of production and expand output to meet the higher demand. There might, however, remain industries producing investment goods which would not receive a sufficient stimulus from this source. For example, the producers of textile or agricultural machinery might still be left with a large surplus of men and capital resources out of work; and it might be necessary to take special measures to expand employment in these industries, unless it were thought desirable to scale them down permanently and to adapt as much as possible of the displaced resources, including displaced labour, to alternative uses. What would be desirable would, of course, depend on the answer to the question whether such industries were but temporarily depressed and would be likely again to need all their resources when full employment had been restored, or were unlikely to be wanted again, even in the long run, except on a reduced scale.

Fields for Social Investment

In the Table on page 391, I have set out, by way of illustration, certain of the fields in which public policy already affects the level of investment directly, and also the extension of this influence which would result from a wider spread of public ownership and control. The first part of the Table is confined to industries and services which directly employ a large labour force: the second part deals not with industries, but with public agencies (or agencies which could be made public) which, by placing orders for supplies, considerably affect the activity of the industries making investment goods. It can be seen how great would be the effect on the State's power to control investment of even a

[1] For a fuller discussion of a 'wide' public works programme, see my book, *The Means to Full Employment* (1943).

relatively modest extension of the field of public ownership. The Table, of course, is not meant to be exhaustive: it lists only a limited number of industries and services, and leaves out of account all save the most obvious repercussions on the activity of the industries making investment goods. For example, electrical engineering would be affected to a smaller extent by almost all the forms of demand coming from the industries and services in the first and second columns. But it has seemed best, for simplicity, to leave secondary reactions out of the account.

The wider the range of public ownership, the more easily can a wide, all-round policy of 'public works' be followed. This is not to say that a wide policy is ruled out where few industries or services are in the hands of the State or its agents, but only that in such a situation the need to act by way of subsidy involves greater difficulties and, as a rule, excessive expense. A State which has few industries under its control may therefore be tempted to experiment with the alternative method of stimulating consumption, with the idea of thus passing on an indirect stimulus to the depressed constructional trades.

Stimulating Consumption

There are a number of ways, in addition to tax remissions, of stimulating consumption. The simplest in many ways is to extend the supply of free services—for example, by increasing the provision of free meals and free milk to children and others who need them, or by remitting school fees, where they exist, and so on. There is, however, no valid reason why such things as these should be done only in times of depression; and, to the extent to which the State makes them part of the regular public service, they become inapplicable as special measures designed to combat depression. A further step, analogous to tax remission, is to pay grants to local authorities to enable them to reduce local rates—notoriously a most unfair and burdensome tax. Similarly, social insurance contributions can be lowered during a depression, or rates of benefit and pension can be temporarily raised. This last, however, even if it be desirable when ordinary benefits are too low, helps only certain sections of the consuming public. Again, children's allowances, where they exist, can be temporarily increased.

It would be possible for the State to go further, and simply to credit every member of the community with an additional weekly income for as long as the depression lasted. The State could borrow the money for this purpose, just as for any of the others, and could, if it thought fit, wipe off the loan gradually over a

Public Works and Public Ownership

Already under public ownership, 1945	*Proposed for public ownership or actually socialised after 1945*	*Building*	*Civil engineering*	*General engineering*	*Constructional engineering*	*Electrical engineering*	*Gas engineering*	*Water engineering*	*Naval shipbuilding*	*Merchant shipbuilding*	*Vehicle-making*	*Aircraft-making*	*Steel*	*Marine engineering*
I. Productive or Service Industries														
Post Office	—	X		X		X								
Royal Dockyards	Other naval dockyards								X				X	X
Municipal transport services	Other main road transport services			X		X					X		X	
London Passenger Transport Board	—			X		X					X		X	
Central Electricity Board and municipal electrical undertakings	Other electrical undertakings		X		X	X							X	
Municipal gas services	Other gas undertakings				X		X						X	
Municipal water services	Other water undertakings		X	X										
Public Docks and Harbours	Other docks and harbours	X	X	X	X									
Forestry Commission	Private woods and forests	X												
	Mines		X	X							X		X	
	Railways	X	X		X						X		X	
	Canals		X	X						X				
	Shipping services									X			X	X
	Air transport services		X	X		X						X		
II. Public Agencies exerting Demand for Investment Goods														
Road authorities	—		X											
Education	Private school provision	X	X											
Health	Private health services, hospitals	X	X											
Housing	Private housing (in part)	X	X											
Authorities for other public buildings and amenities	Private parks, playing fields, community centres, etc.	X	X											
Drainage, etc., authorities	Private drainage, etc., agencies		X	X										

period of years, or alternatively could leave it permanently in existence, meeting the annual charge out of the growing productivity of the national industries. This, no doubt, would have the disadvantage of increasing the size of the National Debt, but not necessarily so as to make the Debt involve a heavier annual burden. If the national income is increased, as it will be, by the use of the borrowed money, the interest on the debt will increase a great deal less than the income available for meeting it. In most circumstances, the *yield* of the existing taxes, levied on the increased total income, will be fully enough to meet the additional debt charge without any raising of the rates of tax. Borrowing, then, seems to be a fully justifiable procedure, whether the State is setting to work to increase investment or consumption. When the aim is to increase investment, in order to employ unused resources in the industries making investment goods, borrowing is clearly preferable and entirely unexceptionable; for capital assets created out of the borrowed money will be called into existence. More prejudice is aroused by the idea of the State borrowing in order to increase current consumption; for the effect is apparently to create a debt against which no capital assets can be held. But in truth even such debt creation is no less justifiable, if it results in a national income raised by more than the cost of the debt. It may, however, in practice be desirable to finance by borrowing only that part of the State's additional spending that is used to increase investment, and to cover any spending applied to increasing consumption by additional taxes levied as far as possible in such a way as to fall on 'savings' rather than on consumption. Such additional taxes need not be levied in the same financial year as the money is spent; for there is no real case for regarding the annual balancing of the Budget as a good thing under all conditions. It may be much better for the State to overspend its tax income in some years, and to reduce the balance by paying back in subsequent years what it has temporarily borrowed to cover the deficit.[1] There is nothing unsound in what is called 'deficit financing,' as long as it does not so increase the annual debt charge as to make it rise faster than the national income upon which it falls. Of course, the debt *charge*, as distinct from the nominal amount of the debt, depends on the rate of interest; and it is therefore of the greatest importance for a State which follows a policy of 'deficit financing' to keep the gilt-edged rates of interest consistently low.

[1] Since these pages were originally written, a full discussion of the problem has appeared in an Appendix, by Mr. Nicholas Kaldor, to Lord Beveridge's book, *Full Employment in a Free Society* (1944).

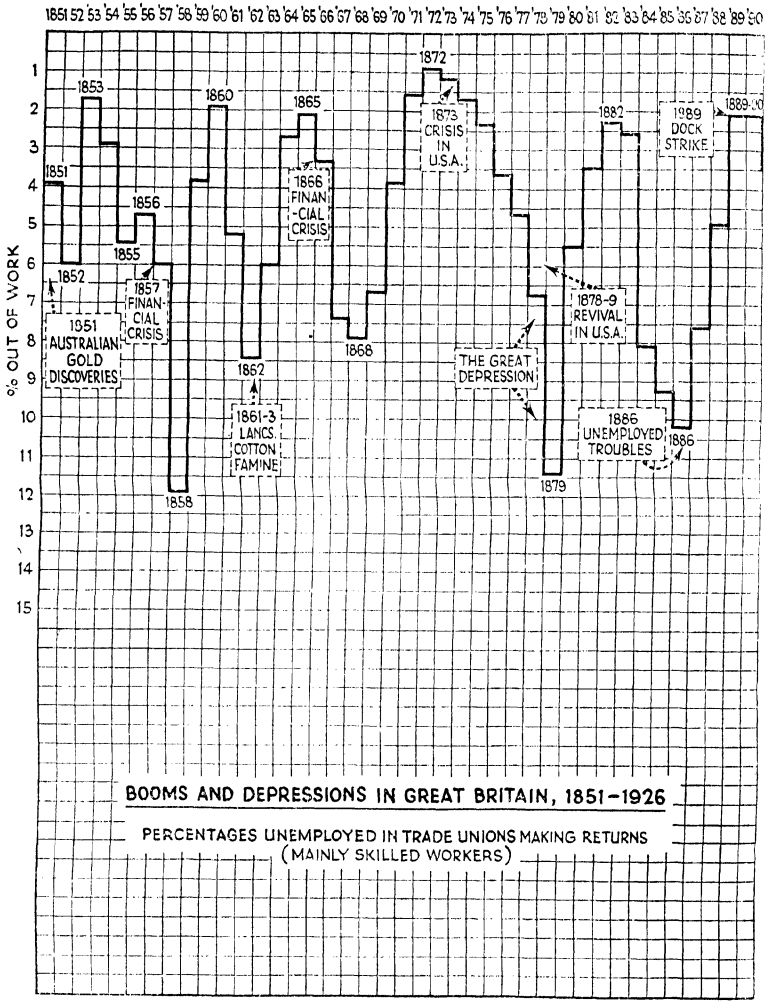
CHAPTER VI

THE TRADE CYCLE

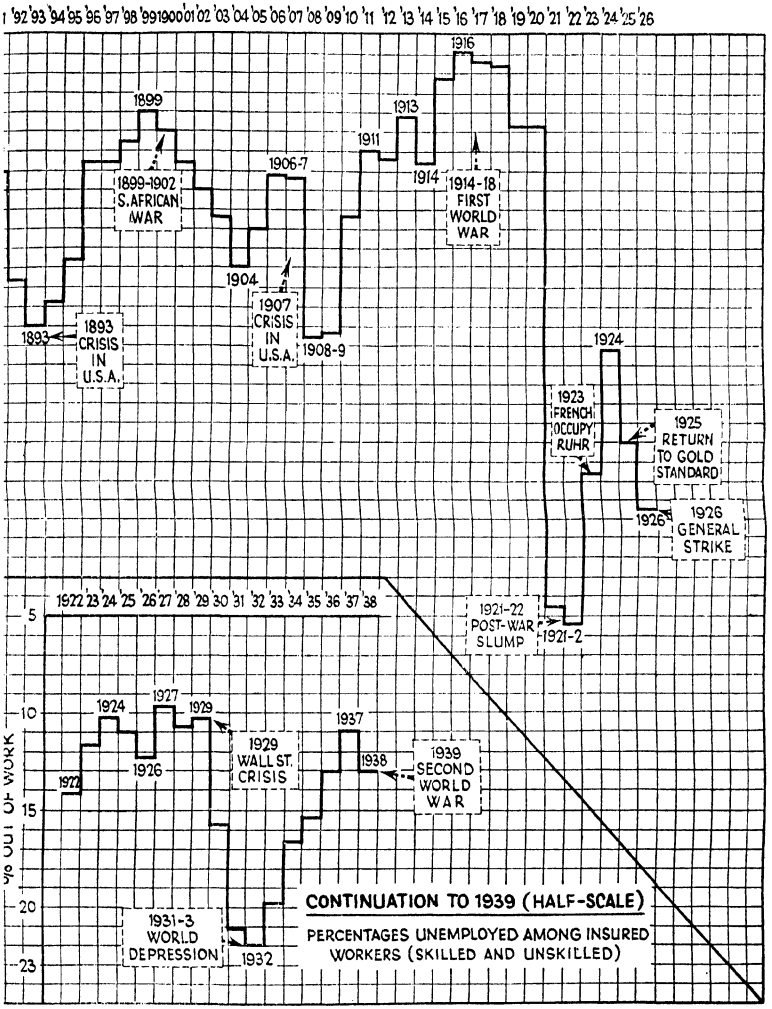
So far, I have deliberately refrained from any attempt to answer the question, 'Why do slumps occur?' This question has been set aside because it is quite possible for persons who take widely different views of the causes of what economists call 'The Trade Cycle' to agree about the measures which can best be taken to keep employment high and steady and to counteract any forces which may threaten to bring about a general depression. Of course, I do not mean that I regard it as really unimportant to know why the economic systems of capitalist countries suffer from these recurrent disasters, or that real remedies can be applied without an understanding of the causes that are at work. It may be possible to prevent unemployment by striking only at the symptoms of capitalism's fundamental disease; but the symptoms will tend to recur as long as the disease is not cut off at the source. Let me state a parallel. I suffer from a disease—diabetes—of which doctors have not yet discovered the cause. They cannot cure me of it; but they can, by dosing me with insulin, allow me to live a pretty satisfactory life. They can counteract the symptoms, though they cannot cure. It may be quite possible to secure an approach to full employment under capitalism by similar means, though I do not think the economic physicians will ever find a cure for unemployment as long as capitalism remains in force.

The Trade Cycle

For as long back as we have means of tracing the economic fortunes of industrial countries with the aid of any sort of quantitative data, we find evidence of 'cyclical' fluctuations. In Great Britain for at least two centuries past, and possibly for a good deal longer, industrial activity has oscillated between periods of high and low production and employment, usually accompanied respectively by rising and falling prices. There has been no absolute regularity in the length of these 'cycles': indeed, they have varied considerably in both duration and intensity, as can be seen at a glance from the accompanying chart, which shows the general course of unemployment—as good a measure



as any—in Great Britain back to 1850. A chart showing earlier cycles, on a different basis, is given on page 401. In Sir William Beveridge's book, *Full Employment in a Free Society*, the whole subject is dealt with at greater length than it can be here. There is, indeed, no regular rhythm about this fluctuation: ups



Booms and Depressions in Great Britain, 1851–1926.

follow downs, and downs ups, as they are bound to do if there is any fluctuation at all, but there is not much to suggest that the movement has any definite pattern. Writers about economics have sometimes spoken as if there were evidence of a 'normal'

cycle tending to last ten years; but I can find none in the figures, either for Great Britain or for other coutnries which have been subject to similar conditions. On the face of the matter, the chart shows depressions of some magnitude touching bottom in the following years up to the first World War:–

1852, 1858, 1862, 1868, 1879, 1886, 1893, 1904, 1908 and possibly 1914 (but in that case there would certainly have been a further fall to come but for the outbreak of war).

This gives intervals of 6, 4, 6, 11, 7, 7, 11, and 4 years, omitting 1914. If we take peaks instead of troughs, we get the following years

1851, 1853, 1860, 1865, 1872, 1882, 1889, 1899, 1906, 1913;

that is, intervals of 2, 7, 5, 7, 10, 7, 10, 7, and 7 years—which looks more like a seven-year than a ten-year cycle, but is still too irregular to show any clear pattern of cyclical fluctuation.

Many different explanations of 'the Trade Cycle' have been advanced by economists of different schools. Some have regarded it as due mainly to an inherent instability in monetary conditions, and have laid the blame on the monetary system or on the organisation and behaviour of the banks. Others have attributed it mainly to psychological causes, and have sought to trace it to the alternating errors of optimism and pessimism among business men, who are prone to speculative excesses in good times, followed by fits of contagious depression when, as a result of their speculations, things begin to go wrong. Yet others have laid stress on different factors, such as fluctuations in harvest yields, upsetting the relations between agriculture and industry, and spreading depression from the primary producers to the manufacturing and trading groups. Some economists, moreover, have endeavoured to refine upon the general concept of the Trade Cycle by discovering co-existent 'cycles' of varying length—'long' and 'short' cycles—or affecting different parts of the economic system. Finally, anti-capitalist economists, among them Marx, have contended that cyclical fluctuation arises necessarily out of the nature of the capitalist system, because the inherent drive towards expansion in order to counteract the tendency towards lower profit-rates leads capitalists again and again to enlarge the scale of production, only to be brought up again and again against the limited consuming power of the general body of the people. On this view, the recurrent crises of capitalism have the function of bankrupting enough businesses and driving enough instruments of production out of use to make it possible for the process of expansion to be

resumed. A variant of this explanation is that of J. A. Hobson, who attributed capitalist crises to under-consumption arising out of the maldistribution of incomes. The rich, Hobson argued, instead of spending their money on consumable goods, try to save too large a proportion, and thus increase the supply of instruments of production above what is needed to meet the demands of the limited market for consumers' goods. The consequence is that, when the new instruments of production are set to work, there are not enough buyers to take the increased product off the market, and crises thereupon ensue, lasting until unemployment and the gradual exhaustion of accumulated stocks of goods have prepared the way for a further forward surge.

I do not propose, in this brief study, to embark on any examination of all these rival theories. Such an examination would need a big book, and would be impossible without raising much deeper issues than I wish to raise at the present stage. I shall, indeed, have to say something of some of the theories that have been put forward; but I propose to begin, not with the theories, but with some further consideration of the facts. If we study the recorded history of depressions in Great Britain, we shall be tempted to argue that their advent is not due to anything connected with the internal working of the British economic system, but rather to external causes. Indeed, there has been, for the best part of a century, an obviously close connection between the occurrence of economic depressions in Great Britain and in the United States; and it seems as if the signal for crisis has usually been hoisted in the first instance in the United States rather than on this side of the Atlantic Ocean.

Crises in Great Britain and the United States

It will be seen from the accompanying Table that there were between 1850 and 1939 twelve periods of depression in Great Britain and nineteen in the United States. Of these, six in each country were accompanied by major crises, and were altogether more severe than the others. The dates of the respective crises are as follows (the six serious crises in each country being given in black type):

Great Britain[2] .	**1857**	**1866**	**1873-4**	**1890**	[1]	(1907)	**1921**	**1931**
U.S.A.[2] . .	**1857**	(1865)	**1873**	(1890)	**1893**	**1907**	**1920**	**1929**

The close correspondence of the two series is obvious. But there is more to it than that. In 1857 the crisis occurred in the United

[1] Depression which began in 1890 intensified in 1893.

[2] Figures in brackets indicate deep depression without any particular moment of crisis.

States in August, and in Great Britain in November; the British crisis of 1866 followed on an American recession of 1865; the collapse of the boom of 1872–3 began in September, 1873, in the United States; the crisis of 1890 was practically simultaneous in both countries, but was largely due to speculation on the American continent; the American crisis of 1893 produced an accentuated depression in Great Britain before there had been any recovery from that of 1890; the depression of 1907–8 started with the American financial crisis of October, 1907; the slump after the first World War began in the United States in 1920, and spread to Great Britain early in 1921; and finally the signal for the world economic depression of the early 'thirties was given by the Wall Street crash in the autumn of 1929. Most of the smaller depressions appear to tell the same story. Not once does a slump or a crisis appear to have spread from Great Britain to the United States: the movement, wherever it can be traced, has been the other way round.

I do not assert this as proof that the root cause of instability in the capitalist world is to be found in the United States; for it is arguable that the American business world is merely a quicker barometer than the British, and thus reflects sooner the movements of world economic forces which it does not control. There is, however, at least something very suggestive in this long-continued American leadership into, and also, incidentally, out of depression. The Americans, let us note, recover sooner than the British. Here are the respective years of recovery, including both major and minor depressions:

U.S.A. .	1855	1859	—	1868	1871	1878	1885
G.B. .	1856	1859	1865	1869	—	1879–80	1887
U.S.A. .	1891	1895	1897	1901	1904	1909	1912
G.B. .	—	1895	—	—	1904–5	1909	—
U.S.A. .	—	1915	1919	1922	1924	1933–4	
G.B. .	—	(War)	—	—	1924	?	

Wherever there is a difference, the United States leads out of the depression into which it has moved first.

It is, I think, at any rate plausible to attribute the very great sensitiveness of American economic conditions to the feverish pace at which, over the past century, development has been proceeding in North America, to the accompaniment of rapidly increasing population. This process has involved capital accumulation at a prodigious rate, including much use of capital borrowed from abroad or invested by foreigners in American enterprises. There

Depressions, Crises and Revivals in Great Britain and the United States from 1850

(The most serious crises are in black type)

United States					Great Britain			
Recession begins	*Date of crisis*	*Worst year*	*Revival begins*	*Remarks*	*Recession begins*	*Date of crisis*	*Worst year*	*Revival begins*
1853	July, 1854	1854	1855					
					1854	—	1855	1856
1857	**August, 1857**	1857–8	1859		1857	**November, 1857**	1858	1859
1860	(American Civil War, 1861–5)							
					1861	—	1862	1865
1865	—	1867	1868					
					1866	April, 1866	1868	1869
1869	September, 1869	1869–70	1871					
1873	**September, 1873**	1877	1878		1873–4	**(Great Depression)**	1879	1879–80
1882	—	1884	1885					
					1883–4	—	1886	1887
1890	November, 1890	1890–1	1891		1890	**November, 1890**	1893	1895
1893	May–August, 1893	1894	1895					
1896	—	1896–7	1897					
1900	—	1900	1901		1900	—	1904	1904–5
1903	September, 1903	1903–4	1904					
1907	**October, 1907**	1908	1909		1907–8	—	1908	1909
1910	—	1910–11	1912					
1913	—	1914	1915	European War	1913–4	—	1914	—
1918	—	1918	1919					
1920	**1920**	1921	1922		1920	**1921**	1922	1924
1923	—	1923–4	1924					
1929	**1929**	1932–3	?					
					1930	**1931**	1932	1933–4

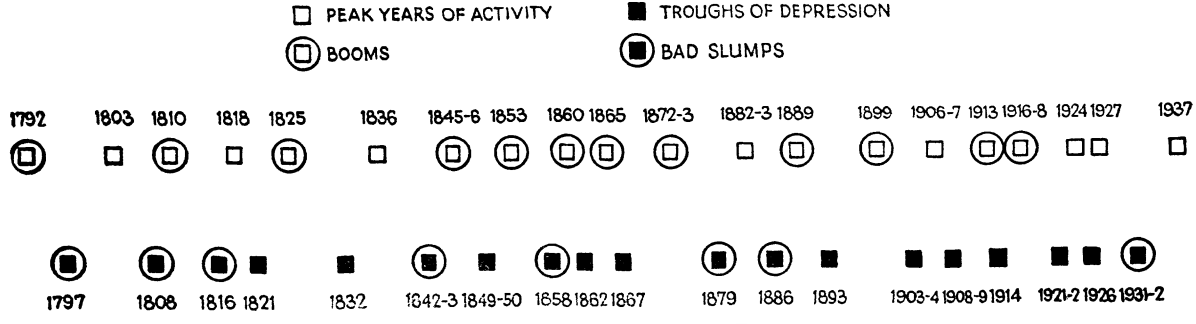
is no inherent reason why such rapid expansion should not take place with reasonable regularity; but anyone who has studied American economic history is well aware that it did not, and that it was accompanied from the very outset by tremendous speculative excesses. Moreover, the United States suffered, right up to the first World War, from notoriously unstable monetary conditions, which alternately encouraged speculative activity and brought it up suddenly short. It is at least possible that economic fluctuations in Europe would have been much less severe had not European financiers again and again become involved in the tangles of American speculation, and had not American purchases of imports shown very wide fluctuations as internal economic conditions changed for better or worse. It is also to be noticed that British exports to the United States usually picked up not in the year in which revival occurred in America, but in the following year. American recovery usually began in the home market, and then spread to foreign trade. Here are the years, first of internal revival in the United States, and secondly of recovery in British exports to the American market up to 1914:

Revival in U.S.A.	1855	1859	1868	1871	1878	1885	1891
British export recovery	1856	1859	1869–70	1871–2	1879	1886	—

Revival in U.S.A.	1895	1897	1901	1904	1909	1912
British export recovery	1895	1897	1902	1905	1909	1912

Earlier Crises

It would be more plausible to assign the entire blame for economic crises to the United States had not such crises notoriously existed long before the United States reached a position to exert a preponderant influence on world economy. Booms and depressions can be traced in Great Britain right back through the eighteenth century, though they may not have been so widespread in their effects in earlier times. What must be borne in mind is that in the eighteenth and early nineteenth centuries Great Britain was passing through a series of economic revolutions as upsetting as the American revolutions of a later epoch, and that these developments were similarly accompanied by high speculative activity and disordered monetary conditions. In the first half of the eighteenth century the principal centre of this speculation was foreign trade: later in the century its province was widened by the progress of industrial mechanics; and the fever reached its height in the boom and crisis of 1825, after the Napoleonic Wars, and in the 'railway manias' of the ensuing decades. Historians have found part of the explanation of the



Booms and Slumps in Great Britain From 1792.

troubles of the 'thirties and the 'hungry 'forties' in the intense speculative activity of the great 'railway manias,' when professional and amateur investors alike rushed to lock up their capital in railway ventures (which could not possibly yield an immediate return), and in the piling up of investment at the expense of wages which marked the growth of the factory system. These explanations seem reasonably to cover the essential facts of the period; and they help to suggest the outlines of a wider explanation.

There is, however, one outstanding difference between Great Britain in the Industrial Revolution and the United States in the period of its great expansion. American wage-labour was never cheap. It could not become cheap, despite the vast immigration, as long as the 'frontier' remained open and there was land to be had for the asking. American industries had to build themselves up on a basis of highly paid labour—a fact which gave a strong impetus to mechanisation and to piling-up of capital resources. There was immense development work to be done in building roads, bridges, railways and canals to span the vast spaces of an entire continent: yet this was not so different in its effects from what had been done in Great Britain. The outstanding difference was that labour could be had only at its own price. It looks plausible to attribute the occurrence of crisis in the England of the Industrial Revolution to the want of purchasing power among the mass of the people. But no such explanation will serve for the pioneering days in the United States. If crises were epidemic in the developing American economy, the reason was not that wages were too low to purchase the increasing product. The negroes and the 'poor whites' in the South lived at very low standards; but no one will advance their poverty as the cause of American business instability in the days of continental expansion.

Speculation

We come back, then, to speculation as the most obvious cause. The economic life of the United States has been marked by speculative excesses from the very beginning. Land speculation played a large part in the earliest years of the Republic; and ever since the Americans have shown themselves possessed of a temperament speculative beyond the ordinary. Possessors of a vast continent open to what has seemed infinite exploitation, with population continually rising and fresh resources of production always ready to be called into use, the Americans gambled first in real estate, then on produce markets, and then most of all on stock markets, of which Wall Street became the centre and the

symbol. I do not suggest that this happened because of some vice inherent in the American character: of course not. The American character was itself a product of the circumstances which invited to speculative excess. In Great Britain, for the most part, the old landlords quietly absorbed the gains of the Industrial Revolution without gambling on them, and the existence of the old landed aristocracy served as a stabilising force. Even so, there was plenty of gambling in railroad and mining ventures, and, late as well as soon, in all manner of investments overseas. But the British economic system was settling down and growing less markedly speculative through the nineteenth century, while the Americans were still finding new chances of extending the speculative range.

How, precisely, does speculation lead to economic instability? Under normal conditions the buying and selling of land and existing capital assets for profit is a matter of trying to assess what incomes they can be expected to yield, or perhaps one should say what incomes other people may be expected to expect them to yield. In a rapidly developing country there is a strong tendency for the income-yielding values of existing assets to rise. Land and business set-ups alike tend to increase in yield as population increases and as the total of national wealth gets larger. Many people want to get more than their share in the rising wealth, and see that, if they can get hold of assets which appreciate faster than is expected, they will be able to reap windfall gains. The optimism generated by the upward trend of the whole economy creates a mood of willingness to believe in the continuance and intensification of existing favourable opportunities, and optimists begin bidding one against another for assets that look promising. In doing so, they accept lower and lower present yields, or immediate prospects of yields, in the hope of great things to come. Land values and stock market values go on rising higher and higher, until . . . until *what?* Until a point comes when more speculators think the time has come for realising upon their gains, and getting clear while the going is good, than are prepared to plunge further. This process of realisation, creating a market with more sellers than buyers, brings values tumbling down; and, if the speculative movement has been carried far, the next thing is a panic—a desperate scurry to sell before values have fallen so far as to face the holders with absolute ruin. The effect of this scurry of course is to bring stock market prices down with a run, and to start a general landslide, with the demand for capital goods falling off almost to nothing as the prospects of profitable investment disappear, and with demand for consumers' goods also falling sharply as the ruined speculators and their victims set out to

reduce their standards of living, and as workers are thrown out of employment on all sides.

The position is made the worse, first, because many of the speculators will have bought 'on margin,' and secondly because they will have included from the first professional speculators who knew all the time how false the entire process was. Buying 'on margin' means buying more stock, or more land, than one pays for, by merely depositing 'cover' to allow for a certain range of fluctuation in market price. The buyer 'on margin' very often has no intention of ever holding the stocks he purports to buy: he means to sell again at once, at the expected higher price, and merely to pocket the difference. If a fall, instead of a rise, occurs, he dare not hold on: he has to sell while his cover is still enough to meet his loss. Consequently, transactions 'on margin' lead easily to panic selling when things go wrong. As for the professional speculator, his job is to make as much money as he can out of the gullibility of the public—to force prices as high as he dares and then sell out, leaving the amateur speculators to stand the racket. He too acts as a powerful force exaggerating the upward movement of prices, and then precipitating the crash.

Share Values in Boom and Slump

Consider for a moment what happened to the prices of ordinary shares (the Americans call them 'common stock') on the New York stock market before and after the crisis of 1929. Take as $100 the price of a representative bundle of 'common stock' made up of all sorts of holdings, including the steadier as well as the more speculative, in 1924, on the average of the year's prices. By 1927 the price of this bundle had advanced to $169, and by 1929 to $270—still in terms of the average prices throughout the year. In September, 1929, just before the crash, the price was $309. The value of all types of 'common stock,' good and bad, steady and speculative together, had gone up threefold. By the end of 1931 this same bundle of stocks was valued in the stock market at only $77, and during the following year the valuation was again halved. Even bonds bearing a fixed rate of interest, which had been out of favour during the boom, while investors were out for speculative capital gains, were affected by the general panic, and slumped to fantastically low prices. Of course such valuations—both the high and the low—were quite absurd: it is mere nonsense to suggest that, on any long-term calculation, the real value of industrial property in 1929 was three times what it had been in 1924, or had fallen in 1932 to one-tenth of what it had been

in 1929. The entire process of valuation was fictitious: it represented, not what anyone could really suppose to be the value of industrial property in the long run, but merely what value they supposed stock market operators would put on it in the immediate future. These share prices represented not the estimates of value made by persons who meant to hold the shares for the income to be derived from them, but the results of calculations of probable rises and falls in capital value by speculators who meant not to hold but to sell when they thought the price had reached its highest level. The speculators were not making sober judgments of earning capacity: they were trying to make capital gains out of one another's folly, in the hope of getting out while the going was still good. Moreover, this was being done not only by professional stock market operators, but by millions of American citizens who went in for a flutter on the stock market in the same spirit as an Englishman places a bit on a racehorse or a greyhound or a football team, but on an immensely larger scale.

If speculators made money only off one another, and shared the losses among themselves, this sort of speculative fever would not greatly matter, and the real work of the world could go on regardless of it. But this is not what happens. A crash of speculation drags down with it many legitimate businesses which have become involved, creates a mood of no confidence in which investment in new capital assets is brought almost to a stand, and throws great masses of people out of work. It has, moreover, a financial aspect. Usually, while it lasts, bankers oblige their speculative clients with larger and larger loans to speculate with: prices of goods increase because of brisk demand when so many persons are feeling rich on paper, and bankers therefore make larger advances to cover ordinary industrial and distributive expenses. The amount of money in active circulation increases fast up to the crash; and then a crisis of 'liquidation' ensues. Bankers hastily call in as many loans as they dare, bringing speculators and ordinary borrowers to the ground together. Commodity prices fall sharply, and business losses are made on accumulated stocks and on work in process. After a lag, wage-cutting sets in, with the object of reducing costs. There is a general upset in every corner of the economic system.

These are the effects of a speculative boom, based on trying to get rich quicker than the realities of the situation allow. In any expanding capitalist economy, there is bound to be a tendency to such excesses, strong in proportion to the vigour of the expansive forces and to the weakness of any social mechanisms of control. In the American case, up to 1913, the absence of any centrally

organised banking system was commonly regarded as one great reason why speculative activities were allowed to get so badly out of hand; and the Federal Reserve banking system was created in that year in the hope of providing an instrument of effective control. The Federal Reserve System did not, however, prove able to stop the big speculative boom of 1928–9: the speculative temper was too strongly established for the weak measures which were all those at the head of the system dared take to prevail against it.

The United States and Great Britain

This great strength of the speculative impulse in the United States is a factor of the greatest importance for the world's future. It seems unlikely that the Americans will settle down in the near future to conditions of even moderate economic stability; and their influence on conditions in the rest of the world will be even greater than it has been hitherto unless special measures are taken to counteract it. If the United States, from now onwards, embark on another of their grand speculative booms, followed by a collapse comparable in scale with that of 1932–3, every other capitalist country will be in danger of finding itself dragged in the wake of American fluctuations. At any rate, this is what will happen in the absence of special preventive measures. It will be the more certain to happen because American speculation will not be confined to the home market. Americans will speculate in foreign holdings, just as British financiers, if they are let, will speculate on Wall Street. Moreover, one great factor in bringing collapse in Europe after 1929 was the sudden withdrawal of American capital by speculators who wanted it in order to restore their 'liquidity' at home. A repatriation of American money from Europe will in the future be even more destructive in its consequences.

Suppose that, in the very near future—probably before this book appears—Great Britain returns to a form of gold standard, such as we have promised to adopt under the scheme drawn up by the Bretton Woods Monetary Conference. Suppose Great Britain agrees, as the Americans desire, and have in fact made a condition of the loan granted in 1946, to abstain from all 'discriminatory' arrangements in international trade. Suppose we go back, in these respects, to the traditional practices of nineteenth-century capitalism—and suppose that, when we have done so, crisis and depression follow upon boom and speculative orgy in the United States. What will happen? (1) American citizens will go hard to work, trying to call in debts owing to them from other

countries, in order to re-establish their own 'liquidity' in face of stock market losses at home. (2) American prices will fall sharply, making it necessary for us to cut our prices in order to maintain our exports. (3) There will be a strain on our foreign exchanges, due to the recall of American money, the fall of exports, and, if allowed, the diversion of money from London to make cheap purchases in the United States. (4) American purchases of imports will fall sharply, dislocating not only British exports to America, but also exports to other countries which can no longer sell their own products in the United States. (5) American producers, faced with a decline in their own home market, will try to sell more abroad, and will thus compete further with British exports, and put a further strain on the sterling-dollar exchange.

Now suppose that we, in Great Britain, have been endeavouring to follow a policy of 'full employment,' maintaining the total demand for goods and services at a level high enough to leave no surplus labour unused. If we attempt to cut prices in correspondence to the fall in the United States—as by the rules of the gold standard we ought to do—we shall force a major crisis in our own country, accompanied by serious wage disputes and many business bankruptcies. The Government, if it is pledged to maintain full employment, will have either to pay out subsidies on a lavish scale or to embark on tremendous schemes of public works, or both. Even so, there will be heavy and intractable unemployment in some industries, particularly in those connected with export, where resources are not easily transferable to alternative uses. Over and above all this, we shall suffer a crisis in our balance of payments; for if as far as we can we keep everyone at work, and provide reasonable incomes for the unemployed, the demand for imports will remain high, while the volume and value of exports will fall. We shall have to incur yet more foreign debts and to sell off such foreign investments as remain to us, if we have any that we can sell under such conditions; and before long we shall find ourselves under very strong pressure to give up the attempt to maintain employment, and being exhorted, in the name of 'sound' economics, to resort instead to the old traditional policies of deflation and wage-cutting in the belief that the first step towards making things better is to make them worse.

This, be it noted, is on the assumption that we have agreed in advance—as we have already as a condition of receiving the American loan—to adhere to a fixed monetary standard and to eschew all 'discriminatory' practices in international trade—and that we stick to our bargain no matter what it costs. But now suppose that we are under no such obligations. We can in that

case, if we will, refuse to allow the value of our currency to be affected by the change in American prices; and we can concert with other countries belonging to a 'sterling group' measures for keeping our money and theirs stable in value in face of the American collapse. We can strike special bargains with countries from which we need large imports to receive our exports in exchange. We can stabilise our own internal economic conditions, save to the extent to which they are affected by the fall of our exports to America or to other countries which depend on sales to America for the means of buying from us. We can set about helping these adversely affected countries without being hobbled by the strain on our own exchanges with the United States. In short, though we cannot prevent an American crisis from having some adverse reactions upon us—that would be altogether too much to hope for—we can greatly reduce the impact of the American depression on ourselves and on the countries with which we are most closely connected; and we can keep up without great difficulty our own home policy of 'full employment.'

This is said, not out of any animosity towards the Americans, but as a simple statement of the reasons why it would be disastrous for Great Britain to allow itself to become inescapably bound to follow at all costs policies which might seriously interfere with British employment and prosperity, and might force deflation upon the British economy whenever the Americans allowed their affairs to get into a mess. The case might be altered if there were any good reason for supposing that there will be, in the United States, no more prodigious speculative booms followed by crises and prostration of economic activity, leading the Americans themselves to resort to any or all of the very expedients which the American Government is urging other countries to bind themselves to avoid. But so many Americans have already proclaimed their will, as soon as they possibly can, to make an end of 'New Deal' economics and of all forms of public control over private business, that other countries are bound to be upon their guard. Nothing can be more certain than that the Americans, if they do finally scrap all the controls and return to the unfettered rule of big business, will be back in a jiffy at the old speculative game, with consequences as disastrous for the rest of the world as for themselves, unless the rest of the world puts itself in a position to deal with such a situation should it arise.

The Instability of Capitalism

This is not to say that, in the absence of disturbing forces from the United States, capitalist enterprise elsewhere would proceed

on a perfectly even keel. The American economy merely reproduces in a more exaggerated form the tendencies to instability which are everywhere inherent in the system of profit-seeking investment. Capitalism elsewhere would have its ups and downs, albeit probably less violently, even if America were right out of the picture. It would do so because there is, under the capitalist form of production, no assurance at all that the processes of production and distribution will be carried on in a balanced way. There is, in the first place, no assurance that the sum of the prices offered for the products of industry will be equal to the costs of producing them. The stream of private money-incomes divides itself, in the hands of the recipients, into three parts—one of which is spent on consumption, in the broadest sense, including services as well as goods, and the part of the price of goods and services which goes in indirect taxation; a second goes to meet direct taxes, rates and contributions; and a third is saved. The price of consumers' goods and services, less indirect taxes, goes back to the producers, and is set against their costs, including profits. The product of direct and indirect taxes and other contributions is partly spent by public bodies on goods and services, and partly transferred back to private incomes as social insurance benefits, public assistance, or interest on public debts. A part of the public tax receipts may also be used on occasion to buy capital goods, though public bodies more often finance such purchases out of loans. The trouble arises when we come to consider the third part of the private income stream—that which is 'saved.' For the act of saving is in itself merely negative: it returns nothing to the producers of goods and services. The act which does involve such a return is not saving, but investment—the purchase of newly produced capital goods. It is *not* 'investment' in this sense when savings are used to buy existing assets or securities, such as existing factories or existing shares or debentures which have previously belonged to someone else. Such purchases merely transfer the ownership of existing assets and of money: they do not meet the cost of any newly produced assets or keep any workers employed. No doubt, if I buy £1,000 worth of existing shares from X, X then has the £1,000 to dispose of as he pleases; but no real investment takes place until he or someone else to whom he has passed it on actually uses it in buying *new* capital goods.

Savings and Investment

My willingness to 'save' £1,000 does not at all involve that either I or anyone else will be willing to spend £1,000 in buying new capital goods. The two things are only tenuously connected.

Real investment requires that somebody shall actually spend money—his own or borrowed—on buying current products for use in subsequent production. Decisions to 'invest,' in this sense, may be taken by persons who have saved money out of their incomes, as when a workman saves out of his wages until he has enough to set up in a small way for himself, or when the owner of a family business curtails his domestic consumption in order to buy a new machine. But much more often the savers and the investors are different persons—or, indeed, the process of investment may have nothing directly to do with saving in any ordinary sense. The situation of the small saver-investor is, no doubt, reproduced in part when a company buys new capital goods out of its reserved profits; but the money for such purchases may come just as well from bank loans or from the sale of existing investments to a bank. If there were a fixed stock of money, annually reproduced, so that all money for spending had to come out of somebody's current income, the situation would be different. But, as matters stand, the supply of money can be increased or decreased by the action of the banking system in making it more or less abundant, and there is nothing to cause the supply of current money savings to be either equal to, or greater than, or less than, the amount of current investment.

Or rather, should one say, in a favourite phrase of current economics, there is nothing to ensure the equivalence of 'savings' and 'investment' *ex ante* (that is, before the investment has been made), though there may be something to bring it about *ex post* (that is, after the investment has been made). If business men invest less than the recipients of income attempt to save, total spending on capital goods and consumers' goods together will fall short of the total 'costs' of producing these goods, and business losses will occur. These losses, from the standpoint of the system as a whole, will cancel out the excess of 'savings' over 'investment,' so that in the aggregate no more than has been actually 'invested' will have been saved. One cannot *really* save money—only things. Money saving is only a claim on other people's future products. It is not wealth, but debt. Those who have 'saved' money can keep their claims in spite of this fact; but they have added nothing to the total stock of values and, to the extent to which their savings have been held back from spending on current products of any sort, have necessarily inflicted corresponding losses on someone else.

It is so important to get this point clear that I am going to run the risk of being tedious in explaining it. Let us go back to the case we took previously, when we saw that Imperial Chemical

Industries, or any other big concern, if it refrains from investing its reserves in additional plant, will not proceed to spend the sums which it holds back from investment on dinners for its directors or on any form of current consumption. It will simply not spend these sums at all, until in the view of its directors the prospects of profitable investment improve.

Now, the effect of I.C.I., or of any other body, holding back sums from spending in any form is that less money in all is being offered for the total product of industry, including both industries producing investment goods and those producing consumers' goods and services. But, if less money is being offered for all the output, either the output must be cut down or the prices charged for some or all parts of it must be lowered. There can be no dispute about this: it is a matter of plain common sense. In practice, both things happen. Prices fall—not evenly for all products, but in varying degrees according to the particular conditions in each branch of industry—and the falls in prices act as deterrents to producers, so that less is produced. Inevitably, under these conditions, some workers are thrown out of work, even apart from those who are left high and dry by the falling off of demand for the products of the industries making investment goods. A slump in this group of industries thus reacts upon others, causing a decline—though in most cases a less severe decline—in the employment of labour in these other branches of production.

This ought to be obvious; but it has taken people—including economists—a long time to see it, mainly because they had got confused in their minds two things which are really distinct. These two things are (1) private money saving, and (2) investment. It used to be assumed that any part of anyone's income that was not spent on current consumption would be 'saved,' and that this process of 'saving' could be identified with the quite different process of 'investment.' In fact, however, for a private person to 'save' out of his income is merely to refrain from consuming all of it—a purely negative act. 'Investment,' as distinct from 'saving,' occurs only if the 'saver,' or somebody else who borrows the money from him, actually applies it to buying 'investment goods.' The ordinary saver has, under modern conditions, no power to do this: what he does, unless he is himself in an independent business which requires new capital, is either to pass his 'savings' on to somebody else to handle for him, or to hold them idle or unused. He can pass them on in any of a variety of ways. He can buy stocks or shares on the Stock Market; he can acquire shares or deposits in a Co-operative Society or a Building Society; he can take out an insurance or endowment policy, and

thus transfer his money to an Insurance Company or a Friendly Society. Alternatively, he can put his money on deposit in a bank; or he can wrap it up in an old stocking, or leave it in a safe deposit, or bury it in the back garden. None of these ways of dealing with it constitutes in itself a *real* act of 'investment.' Real 'investment' occurs only if the body to which the saver has handed his money over uses it to buy actual investment goods—and newly produced goods at that—so as to take part of the *current* output of goods off the market.

Thus, if a saver buys shares or debentures in existing concerns from someone who owned them previously, no new investment takes place. The buyer's money is transferred to the seller of the shares, who can then do with it as he pleases; but there is no purchase of the current output of industry until someone actually uses the money to buy new goods or services. Money can go on changing hands a number of times without any real investment occurring when it is thus passed from owner to owner; and in times of active speculation such transfers do often take place. When business is active, someone will probably in due course choose to apply the money to the buying of *new* capital assets; but when business is slack this may not happen. Individual 'savers' will then tend to buy up existing capital assets, without any creation of new assets; and collective 'savers,' such as joint stock concerns, will tend to build up reserve funds for future investment, without making any purchases of new investment goods beyond the minimum required for indispensable replacements of those which wear out. They will have, of course, to hold these reserve funds in some form, either as bank deposits or in some kind of gilt-edged security. In practice, what happens to a quite considerable extent is that the State borrows their money from them by issuing long-dated loans and using the proceeds to pay off short-term debts. The sums repaid flow into the banks and are either cancelled altogether or accumulated in idle deposits, with further deflationary effects.

When this situation arises, and purchases of *new* capital assets decline, the consequence is that the volume of 'savings' falls off. The community as a whole cannot really 'save' more than it invests in real *new* assets. The individuals and companies that 'save' may indeed, by keeping the money in the banks or putting it away safely in gilt-edged securities, be able to hold over the purchasing power which it represents, so as to have it for use later on. But by refraining from taking any of the current output off the market, they will in the meantime lower the current earnings of industry, and thus cause less in the aggregate to be either

'saved' or consumed than would have been if profits and wage-incomes had remained at the previous levels. The national income as a whole is bound to fall short by the amount which any of the recipients fail to spend on either investment goods or consumers' goods; and accordingly at the next stage there will be so much less income to 'save' or to consume. The 'savings' made and lodged in the bank, or the safe deposit, will not be, from the standpoint of the community, real savings; they will represent subtractions from the incomes which would have been earned if the sums in question had been used in buying either investment goods or consumers' goods or services.

Many people find this truth hard to master because they instinctively think of the aggregate savings of the nation as being simply the sum of the amounts which individual citizens save out of their current incomes, and fail to see that the size of the incomes out of which these 'savings' are made itself depends on the level of employment and production. There is a quite natural tendency to think of the finance of the people as a whole as working in the same way as the finance of a private individual, who can set aside for saving whatever proportion of his income he pleases. It is not seen that the size of the national income depends on the extent to which use is being made of the current power to produce goods and services, or that the extent to which these will actually be used depends on the readiness of someone to buy what can be produced at a price which will cover its cost of production, so as to make the producing of it worth the while of the profit-seeking business man. If, because a part of current income is not spent at all on current output, prices fall and resources in some sections of industry are left unemployed, the national income is bound to become smaller, and both investment and consumption are bound to be cut down.

Investment under Socialism

These are necessary consequences of a profit-seeking economy, or of any system that makes the volume of production and employment depend on the state of the market. The same conditions do not exist under a Socialist system, such as has been established in the Soviet Union; for there the volume of production is determined, not by the prospects of profit that are entertained by business men, but by the quantity of productive resources available for use. A Socialist country, desiring to achieve the highest possible standards of living, will produce all it can, distributing its resources according to its ideas of 'social priorities'—that is, of the relative urgency of different needs.

Such a country will therewith take care to ensure that enough income is made available to buy the entire output of industry. It may itself purchase all the investment goods it thinks necessary to maintain and improve industrial productivity, and distribute to the general public only enough money income to buy up all the supplies of consumers' goods and services at the current prices, which it will itself have authorised and approved. Or, if it leaves individuals to make their own allocations of their incomes between 'saving' and consumption, it will itself regulate the level of public investment so as to ensure that it shall proceed at the rate which is deemed consistent with public needs. It can easily do this by borrowing whatever its citizens decide to save, and then adding to their savings whatever it deems necessary to bring total investment to the required level. Or, if its citizens try to save more in the aggregate than it deems to be necessary, it can tax them until their saving is brought down to the approved level, and can use the proceeds of the taxation to distribute additional incomes to consumers, either by such money payments as pensions or children's allowances or higher wages to public employees, or by supplying free or subsidised services, such as free milk or meals or free water supplies or transport, or indeed anything it chooses to supply to its citizens, or to some of them, at less than cost price.

A Socialist society stands in no fear of serious unemployment precisely because it is easily in a position to start by arranging that all the available resources of production shall be employed, and then to ensure that the right amount of income shall be available for buying what is produced at any levels of prices that it may choose to endorse. In a society in which production is mainly dependent on the motive of private profit, no such simple method exists of keeping the total demand for goods and services on a level with the total productive capacity. There is, moreover, in such societies, a further disturbing factor in the power of banks to vary the supply of money in accordance with their own expectations of what they can lend with reasonable safety.

Bank Money and Investment

Money spent on current products, whatever its source, goes into the process of circulation and becomes available for spending again. Thus, if business men wish to invest money in new instruments of production and, instead of borrowing this money out of anyone's savings, can persuade the banking system to create it for them, the created money does just as well for meeting the costs of the producers as if it had been saved out of current incomes. As

the banking system has this power to create money out of nothing —and in due course to destroy it again—there is nothing to ensure that the money available for buying capital goods shall not exceed the amount which is being currently saved out of incomes. In that case, there is nothing to prevent a larger total sum being offered for the current product of industry than it has cost to produce (including normal profits as part of cost). Producers will then—some or all of them—be able to sell their output at a price high enough to yield them windfall profits. This is of course a regular phenomenon of what is called 'inflation,' which consists in the creation of additional money unbalanced by an equivalent addition to the supply of goods and services.

In What Sense are Savings and Investment Really Equal?

I do not propose at this point to go further into the questions of monetary theory which are involved in this process of creating money out of nothing through the banks. Here my point is simply that in capitalist societies the act of 'saving' and the act of 'investment' are two quite distinct and separate acts, and that there is nothing in the conditions under which money comes into circulation to ensure that the supply of money for investment shall coincide with the amount 'saved.' Such coincidence as there is arises only after the event, and is a coincidence not of monetary amounts but of real values. There is no real saving except that which is made actual by investment in new productive assets; and all investment in this real sense must come out in the current product of industry and leave so much less potentially available for current consumption.

Yet even this statement may be misleading, though I have done my best to fine it down to the bare essentials. For investment leaves less available for current consumption only on the supposition that, if the capital goods which represent the investment had not been produced, an equivalent supply of consumers' goods or services would have been produced instead. This, however, might not have been the case. It might have been impracticable—or impracticable without loss of productive power—to transfer the resources required from the production of capital goods to that of consumers' goods; and, if such a transfer was impracticable, abstention from the investment would not have increased—or at any rate not proportionately—the supply of consumers' goods. Of course, this involves that if the capital goods had not been made, there would have been either some unemployment or some use of resources for purposes for which they were ill-adapted. Such difficulties, involved in the shifting of resources

from one use to another, are always bound to arise where there is a shift in the relative demand for capital goods and consumers' goods. They are, however, only variants on the difficulties which arise whenever the structure of demand changes. It may be a great deal easier to shift from making butter to making gramophones than to shift from making gramophones to making stockings.

Conclusions

The broad conclusion to the argument of the foregoing pages is that there exists under the so-called 'free' capitalist system no mechanism for keeping the flow of 'investment' in line with the flow of 'savings,' or for ensuring that either shall proceed at a reasonably even pace. Let us try to see what will happen when either or both streams alter pace.

(1) *If the flow of 'savings' drops behind the demand for money for 'investment,' either investment must be slowed down or a part of the demand must be met out of newly created money.* A slackening of the flow of 'savings,' if it occurs apart from a fall in total incomes, must mean more spending on consumption. It will therefore mean a larger demand for consumers' goods and services, requiring a shift of resources to the making of those things from the industries which make capital goods. But a larger demand for consumers' goods will mean a larger demand for the means of making them—that is, for the types of capital goods used in the industries which make consumers' goods. This will be only in part offset by a fall in the demand for other capital goods; and the effect will be a stimulus to investment. The money for this, in default of unused savings, will be met by newly created money, which will have the effect of raising prices for both capital goods and consumers' goods. At least a mildly inflationary situation will arise. In other words, a community which wishes to avoid inflation must, in one way or another, save enough out of current income to pay for the supply of new capital goods needed to supply what economists call its 'propensity to consume.' If the citizens do not save enough of their own accord, the State must do what is needed for them—for example, by taxing them more heavily and applying the proceeds to works of capital development, thus removing the need to resort to bank-created money.

(2) *If, on the other hand, the supply of 'savings' runs ahead of the demand for investment, the State must either raise the level of investment by embarking on 'public works' which would not otherwise have been taken in hand (or not till later), or must tax savings and apply the proceeds to stimulating consumption in one or another of the ways we have already discussed.*

(3) *If the demand for 'investment,' whether or not it is in balance with the supply of savings, is too low to provide for the increase of productive power at a satisfactory rate, or to keep the industries which make capital goods reasonably employed, the State must take steps to increase the level of investment,* either by embarking on useful public works, or by offering subsidies or other forms of stimulus to private investment. It will be observed that I have used the words 'satisfactory' and 'reasonable.' These may appear to be question-begging words, sadly wanting in precision. I have used them because there is no instrument more precise than common sense for deciding what is a satisfactory rate of increase in productive power, or what level of employment in the industries making capital goods is to be regarded as reasonable. There is no 'scientific' answer to the question—How large a proportion of its annual income ought a nation to consume, and how much to set aside for increasing its future productive capacity? Many considerations enter in—for example, the prospects of change in population, the willingness to postpone consumption in order to consume more in the future, the need to speed up industrial development in the heavy industries for the sake of national defence. These questions can be answered only in relation to the particular circumstances of each case, and even so only by common sense and not with the exactitude of science.

(4) *If the demand for investment seems too high, in relation to the probable demand for the future services of industry, the State must take steps to damp down investment,* either by abandoning or postponing some of its own plans for public works, or by deterring private investors. But in what sense can the demand for investment be too high, save that which we have considered already, when it is running ahead of the supply of savings so as to create an inflationary situation? Apart from this, investment can be too high only if it either involves an unduly low standard of living in the present—too much postponement of present to future consumption—or is proceeding in a lop-sided fashion—too much investment of some kinds as compared with others, threatening a relative superfluity of some forms of productive equipment. When the danger takes the latter form, the right course is to take steps to correct the disparity, rather than to decrease the total of investment. Such lop-sided investment has been very liable to occur in capitalist booms from the early days of the canal and railway 'manias.' It cannot be corrected without a much greater control over investment policy than capitalist States have hitherto possessed.

(5) *In a Socialist country, the entire state of affairs is different, because*

the State controls investment directly, and can determine both its amount and its direction. Even if private saving continues, and the State borrows the money which its citizens save, the volume of voluntary saving can have only such influences on the flow of investment as the State allows it to have. The State may, no doubt, regard a high propensity to save on the part of its citizens as a reason for increasing its own level of investment; but it need not do so. It can invest either more or less than its citizens save, raising the more by taxation or by levies falling on the costs of its socialised industries and services, or handing back the surplus in social benefits or services for the citizens' present enjoyment. The State has a certain quantity of productive resources at its disposal, and its task is to make the best practicable use of them in meeting the citizens' wants and needs. Naturally, it will do its best to use them all: it will not need to fear any unemployment arising out of cyclical failures in demand. It will not need to adopt measures to *correct* cyclical fluctuations, save to the extent to which these arise in the field of foreign trade. That complication apart, it will simply not allow cyclical fluctuations to occur.

(6) *To the extent to which conditions in a Socialist society are upset by the impact of forces from outside, it will be easier to apply corrective measures,* because the State will be able to arrange directly for the transfer of resources, to the extent to which they can be transferred, or for the marketing at home at special rates of surplus goods no longer saleable abroad, or for bulk exchanges of goods with foreign countries so as to maintain trade in face of a depression.

(7) *States need not be either 100 per cent. capitalist or 100 per cent. Socialist in their economic arrangements.* There can be intermediate varieties, to which intermediate conditions will of course apply.

(8) *The foregoing considerations strongly suggest that in order to deal effectively with tendencies towards economic fluctuation, the State, if its institutions be mainly those of capitalism, needs to possess adequate power to control both the level and the broad direction of investment and consumption,* or in other words both to secure that available productive resources shall be fully employed and to determine what proportions of them are to be devoted to the making of capital goods and of consumers' goods and services. This power must include that of managing the rate of interest, so as to ensure that capital shall be available for industry at reasonable cost, and that the State itself shall be able to borrow cheaply whenever it wishes to institute public works or to stimulate private investment or consumption with the aid of borrowed money. Such control over interest rates evidently involves control of the banking system, and especially

of the Central Bank, which is the principal instrument for making money plentiful or scarce and thus influencing its price, which is the rate of interest.

(9) *Given this power, there is no reason why the State should not be able to remove all serious* internal *causes of fluctuation even from a capitalist economic system.* This, however, cannot be done in practice without serious difficulties and disadvantages unless the State is in a position, when desirable, to embark on a wide policy of economic development in publicly owned industries and services, such as transport, power-supply, and building. If such services as these are in private hands, and the State has to proceed by way of subsidies and other inducements to private investment, there is certain to be much waste and friction in the working of a policy of State-induced capital construction. If, on the other hand, the State owns and operates through its economic agencies a wide range of capital-consuming services, it can apply the needful stimulus directly to the most depressed industries with the minimum of dislocation.

(10) *Nothing can prevent depression in other countries from reacting unfavourably on any country which normally depends much on foreign trade. But the same powers as enable a State to deal with internal sources of depression will make it better able to deal with external sources,* provided that it has not fettered its freedom of action by international agreements inconsistent with the correct measures of adaptation.

CHAPTER VII

CONCLUSION TO PART III

I COME BACK NOW TO THE point from which I embarked on the analysis contained in the preceding chapter. There should be no shortage of jobs either in this or in any other country for those who are available to work at them now that the war is over —any more than there was while the war was in progress. The ways of preventing unemployment are known: the techniques which can be effective in preventing it are waiting to be applied. Even if we do not fully agree about the reasons for fluctuations in the demand for labour or for the maladjustment of the powers of production to the demands made upon them, we do agree quite enough about what actually happens to make the nature of the appropriate remedies plain. To the extent to which we still disagree about what ought to be done, we are divided not so much by divergent views as to the means of preventing unemployment as by disputes about the desirability of applying the remedies, now that we know what they are. Of course, this is not how those who are against applying the remedies are accustomed to state their case; but this is what it really comes to in the final analysis.

Individualist Illusions

First, there are some who still profess to believe that the only real remedy for unemployment is a complete return to *laissez-faire*, including the destruction of trade union power to bargain about wages and conditions, as well as of State interference in all its forms. It is not easy to take this line of argument seriously, both because such a return is obviously out of the question, and because there is not a tittle of evidence that, even if it were possible, it would achieve the supposed result. The nearest approach to this imagined paradise of free enterprise is presumably to be found either in Great Britain in the first half of the nineteenth century or in the United States before the New Deal; but I have yet to learn that either of these can be cited as an example of even tolerable freedom from unemployment. It is no doubt possible to conceive of an imaginary economic system in which every part is perfectly adjusted to every other, and a

condition of perfect equilibrium is regularly sustained by the unregulated play of competitive forces, without any intervention by the State; but such a system never has existed in the world, and it is safe to say that it never could exist. Moreover, if it could, it would have to be perfectly stagnant and unprogressive, in order that its balance might not be upset. The persons who conceive systems of this kind are mathematically minded professors, with no knowledge of the real world and a strong preference for a quiet life. One reason why they like imagining such systems is that it is much easier to teach students about them than about real things, which are awkwardly untidy and irregular. They have even a place, for this reason, in the process of learning academic economics; for they can serve as useful demonstration models of certain economic concepts at an elementary stage. Unhappily, those who begin by using them for this purpose are very apt to fall in love with their symmetrical charms, and to say that, if the real world is not like them, it ought to be. But the real world is the real world, with all its untidiness, and not the emanation of a mathematician's notion of order.

Is Full Employment compatible with Freedom?

Secondly, there are some who denounce proposals for maintaining employment as unworkable mainly on the ground that they would destroy human freedom. It is often difficult to discover whether those who take this line are arguing against full employment policies as unworkable or as undesirable; for they commonly attempt to have it both ways. Briefly, what they try to show is that the adoption of a system which would give the State final control over the volume and direction of investment and consumption would (*a*) dry up the springs of enterprise, and (*b*) involve forced labour. The first of these contentions is of course the long-familiar argument against Socialism and in favour of capitalist enterprise. It rests on the belief that economic progress depends on the incentive of private profit, that men of business ability will do their best only when they are allowed to make large fortunes out of the public, and that this same spirit permeates all forms of economic activity. It is argued that public ownership of industry generally, or of any industry, will dry up initiative and invention and result in a dead level of routine, and that State control of investment will have the same effects. One answer to these contentions is that the adoption of a very thoroughgoing form of Socialism in the Soviet Union appears to have been so far from producing these effects as to have been

followed by the greatest spurt of economic progress that any country has ever known; and this is perhaps the answer most likely to convince. A second answer is to enquire whether, in Great Britain, the Central Electricity Board, or the London Passenger Transport Board, which are examples of public enterprise, have been worse managed or less enterprising than the coal industry or the steel industry or the cotton industry, which have been in private hands. Advocates of 'private enterprise' usually talk as if the great financiers and company promoters made the inventions which lead to progress; but how seldom is this the case, and how seldom do those who make new scientific discoveries reap any considerable share in the profits derived from them! It would be as true, or truer, to represent the financiers and company promoters as doing their best to prevent the development of new discoveries which threaten their expectations of profit, and scientists and inventors as moved rather by the spirit of scientific discovery than by the prospect of personal gain. Most of those who have contributed greatly to scientific advance in modern times have been salaried workers; and nothing is more remarkable to-day than the speed with which the younger scientists have been experiencing conversion to a Socialist outlook.

The contention that full employment is inconsistent with freedom because it involves forced labour is plain nonsense. Why should it involve forced labour, except in the sense in which man, under any system, must labour in order to live? There will be no less diversity of jobs under a planned system than there is under capitalism: indeed, there will be a greater diversity open to each individual, because it will be, as we have seen, an essential part of planning for full employment to diversify industry in each area so as to provide a wide range of alternative jobs. Usually, the jobs open to a boy or girl on leaving school are the jobs that are available locally. Forced labour exists in effect wherever a whole town depends mainly on a single firm or line of business; for that inevitably means the forcing of many square pegs into round holes. There is no reason whatsoever why full employment should involve in peace any such compulsory 'direction' of labour as is required in war. The only form of direction that will be needed is that, where there is a shrinkage of a particular industry for which men or women have been trained, the surplus workers will not be entitled to claim that society shall maintain them permanently in idleness even if they refuse to train for an alternative job (chosen by themselves from among those which require workers). But do those who allege that full employment involves slavery mean to extend the principle of unconditional public maintenance

to the workers under the system they prefer? They have shown no sign of wishing to do this.

Would Full Employment destroy 'Discipline'?

Thirdly, it is argued in some quarters that full employment will mean a breakdown of industrial discipline. This contention, put into plain language, means that hitherto the workers have been coerced into accepting the conditions of capitalist employment by the fear of losing their jobs, and that if this fear is removed they will refuse to do a fair day's work. I do not believe this; but I do not at all deny that there is substance behind the contention. The workers will not, in any considerable numbers, refuse to do a fair day's work when they are no longer afraid of the sack; but they will refuse to do a fair day's work except in return for fair wages and conditions. The virtual abolition of unemployment as a source of fear will greatly increase working-class bargaining power. It will make matters impossible for the sweating employer and for the manager-foreman who believes in driving men without attempting to lead them. It will alter radically the conditions of industrial discipline, and will compel us to revise the system of incentives by which the main body of the people has hitherto been driven to labour.

This, however, does not mean that industrial discipline will break down. It means that the workers in general will have to be satisfied that industry is being carried on for the common advantage, and not for the profit of the few at the expense of the many. It means that collective self-discipline, involving collective self-government, will have largely to replace a discipline imposed on the ordinary workers from outside and from above. The existence of a policy of full employment, directed to getting things done in the best proportions for the satisfaction of real human wants and needs, will be one good assurance that production is socially worth while; and the wartime evidence of Production Committees goes to show that the workers are very ready to respond in most cases to an appeal to give of their best for an end which they accept and recognise as their own. I do not dispute that full employment will involve large changes in methods of factory discipline and management: I do altogether deny that the changes need be such as to make for a worse productive response.

This is not because I suppose all men to be angels, or motives of self-interest to be of no account. The incentives of piecework earnings and of promotion for merit can be applied to any extent desired under a system of full employment, and will certainly

continue to have very great force. I do not suggest that men or women will in most cases give of their best, day in and day out, solely because they know their work is useful or because good work has become a question of 'good form.' I suggest this least of all where the work is dull or unpleasant, or becomes before long a matter of endless repetitive routine. Other incentives are plainly needed, besides the spirit of service. The real question is, Within what framework of social relations will these other incentives work best? My answer is that the best, and the only democratic, way of applying them is within a framework not of fear and coercion based on economic inferiority and insecurity but of co-operation in a common cause.

Would Full Employment mean Bureaucracy?

Fourthly, it is sometimes argued that full employment means economic planning, and economic planning means bureaucracy, which every man, except the bureaucrats, hates in his heart. I myself so share in this hatred of bureaucracy—personified for me in the senior officials of the Civil Service and of the Treasury in particular—that this argument does not leave me unmoved. It would be, I agree, a horror if full employment meant letting our lives be managed by the suavely obstructive gentlemen who select themselves for entry to the higher ranks of the Civil Service and are favoured for promotion in it. But the answer to this objection is not 'Give up full employment!' but 'Change the Civil Service!' Of the methods by which it can be changed I have written elsewhere,[1] and there is no space to go into the question here. I can only say that, in my view, a Civil Service fit to run a progressive economic policy is not consistent with the almost complete security which the Civil Servant, efficient or inefficient, at present enjoys, or with the sharp separation of public from private industrial experience, or with the control exercised by that fount of reaction, the Treasury, over promotions, or with the segregation of national from local government service, or finally with the class system which still stands in the way of the upgrading of good men from lower to higher posts.

Reform the Civil Service how we will, bureaucracy will remain a danger; for the jack in office will be with us always. But bureaucracy is a danger less of Socialism than of the attempt to avoid it. Bureaucracy is at its worst when the bureaucrat is set to exercise

[1] See my contribution, "A Better Civil Service," to *Can Planning be Democratic?* (Fabian Society), 1944. See also Chapter VII of Part II of the present work, pp. 263ff.

control without responsibility for actually doing the job he controls; for this divorce breeds a sense of frustration on the side of those who are controlled, and at the same time a purely negative attitude on the part of the controllers. Control by the State over the community's economic affairs is, under the conditions of to-day and to-morrow, an inescapable necessity. It will tend much less to bureaucracy if it takes the form of actual public administration than if the State sets itself, without taking over the administration of industries and services, to give orders from outside. Actual taking over of industries would mean taking over the existing staffs of technicians and managers, wherever they were doing their jobs reasonably well. It would not mean sacking the men now in the operative posts and putting Whitehall officials in their places. It would mean devising new methods of recruitment and promotion suited to the conduct of publicly owned industries—not replenishing them by the existing forms of civil service examination. Bureaucracy is pre-eminently a danger, not of Socialism, but of the controlled capitalism which is the only alternative to Socialism under the conditions of our time.

Employment, or Leisure?

Fifthly, it is sometimes said that what we need is not 'full employment,' but fuller leisure. I have agreed earlier that employment is not an end but a means—a means to a higher standard of living for our own people and for the world as a whole. I want to reduce 'employment' by raising the school age and thus taking more young people out of industry; by making it easier for old people to retire on decent pensions when they are no longer fit for steady work, and for ill or otherwise unfit people also, whatever their age; by giving everyone reasonable holidays with pay; and by reducing the hours of labour wherever they are unduly long in relation to the work to be done. But I do not agree with those who apparently hold that we could manage with, perhaps, four hours' work a day all round, and still produce enough to meet all our real needs and wants. Very likely, the time is coming when we shall be in a position to do this; but I am sure it has not come yet. We need, in order to lift our own people out of poverty, a great deal more production than we should get by keeping everyone steadily at work at the existing levels of efficiency; and we should need much more, even if we were content to do nothing to help people very much poorer than ourselves. Possibly, when we organise our industries more sensibly, output will be so increased that we shall be able greatly

to reduce the hours of labour; but at this point I think it fair to issue a warning. The problem of producing enough to make everybody well off may be within sight of solution; but it has not been solved yet, and it would be the height of folly on our part to count our chickens while they are still unhatched.

PART FOUR

POST-WAR BRITAIN

CHAPTER I

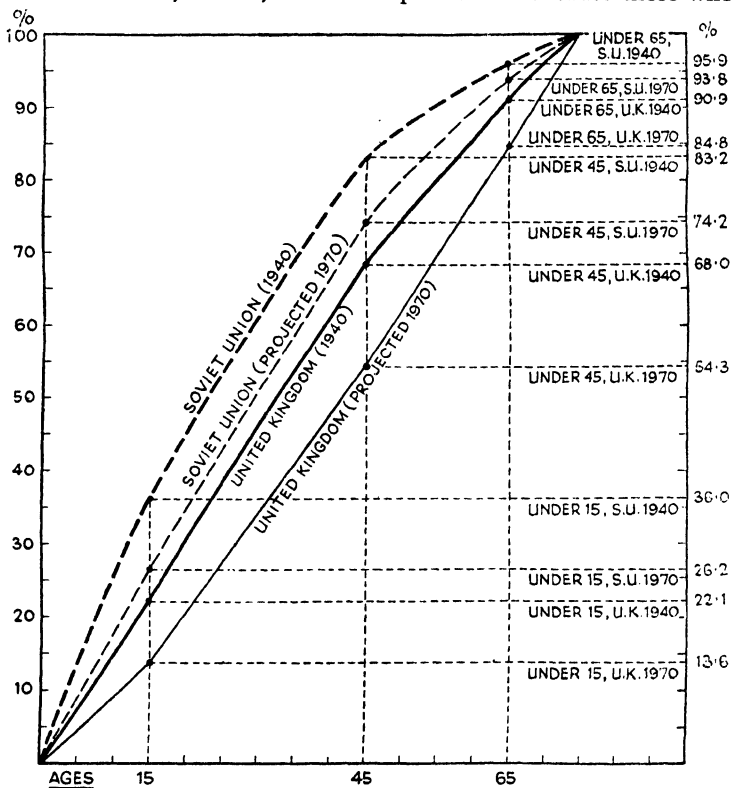
POPULATION

WHEN WE SET OUT to consider the prospects of the British people, the question of population faces us on the very threshold. How many of us are there likely to be? That is one part of the question; but it is not the whole. We have also to ask how the future population of Great Britain is likely to be distributed among different age-groups—children, young people, older people still fit for regular work, retired people—or, more simply, between producers and non-producers. We have, moreover, to try to answer these conundrums not only for the next few years but for a longer time ahead; for the plans we make for the future of our country will obviously depend in part on the size and structure of the population. For example, we cannot leave this consideration out of account in planning for the construction of schools and houses, for the creation of new or the extension of existing towns, or for accommodation of every sort and kind, from cradle to grave.

It is, however, never easy to make population forecasts for more than a few years ahead. There are too many uncertain factors. Population depends on three factors—number of births, number of deaths, and migration into and out of the country—and all these may alter. The number of births may alter, either because the number of women of child-bearing age alters, or because fertility—the number of children to each woman—alters. It may also be affected in any year or stretch of years by the larger or smaller number of marriages—a factor much influenced in the past by economic prosperity and depression, as well as by such disturbing events as wars. In general, however, the marriage rate will have more effect on the number of children born in particular years than on the number born to a whole generation of women over their whole period of child-bearing. It is true that earlier marrying may do something to increase total fertility; but an increase in the number of children born in a particular year or stretch of years may not be a net gain: some of it may be an anticipation of children who would have been born later if their parents had postponed marriage. The two critical factors in determining the number of births are the

number of women capable of bearing children and their average fertility.

The number of deaths may alter either because there are more or fewer people to die, or because of those born more or fewer survive infancy—always a critical period—or because those who



AGE DISTRIBUTION OF THE POPULATIONS OF GREAT BRITAIN AND THE SOVIET UNION: ACTUAL, 1940, AND PROJECTED, 1970.

Source: League of Nations, *The Future Population of Europe and the Soviet Union.*

survive infancy tend to live longer or die sooner in the normal way, or because some abnormal event, such as a war, or an epidemic, or (in backward or war-desolated countries) a famine sweeps away some of those who would have lived longer if it had not occurred.

Migration may alter, either because more or fewer people wish to leave their country and can find some other ready to receive them, or because a country is ready to receive more immigrants and can find people willing to settle in it, or because more or fewer persons who have emigrated come back to their native countries, or because, as may happen particularly after a war, people are driven from one country to another even against their wills.

It is peculiarly difficult to make valid population forecasts in time of war, not only because no one can tell till a war is over how many deaths it is going to cause or how many births it is going to prevent, but also because wars are profoundly upsetting to men's habits, and continue to exert an influence on births, deaths and migration long after the fighting has stopped. They may also have a big effect on the distribution of population between State and State without any physical movement at all, if boundaries are changed so that, for example, persons who were subjects of Poland become citizens of the Soviet Union, or German subjects become Poles or Frenchmen by national allegiance. It was quite impossible to say during the war what the population of any one country or of Europe or of the world as a whole would be when it ended, or at any date after its ending. All this, however, does not mean that we can say nothing at all. There are known tendencies, which we can go some way towards evaluating, though we cannot express the results in exact forecasts. In another section of this book, I have discussed population trends as they affect other countries and continents. In this chapter, apart from a few preliminary comparisons, I am concerned only with Great Britain.

British Population Prospects

It is easy enough to state the position of this country in general terms. The long period of increasing population that has lasted since the eighteenth century, if not longer, is coming to an end; and there is every sign that the population of Great Britain will fall in the near future. Moreover, unless the trends of recent years are sharply reversed (as they show some sign of being, though not sharply enough as yet), the fall, once it begins, will continue at a rapidly increasing rate. This prospect, which is based on the hard fact of the decrease in the number of girls already born who will be reaching the child-bearing period of life at various future dates, can be invalidated for a considerable time to come only by a large increase in fertility—that is, in the average size of families,

which has been falling fast in recent times. Secondly, the population of the coming years will have a very different age-distribution from that to which we have been accustomed. There are likely to be fewer children and many more old people over the normal age of retirement; and among those of working age there are certain to be many more in the older age-groups, from 45 to 64, and many fewer in the younger groups, from 15 to 44. The total size of the working population will not, apart from war casualties, be much affected for some time to come, as the decrease in the number of children and the increase in the number of old people will to some extent cancel out; but of course war casualties will tend to aggravate the scarcity of persons in the younger groups of working age.

These are highly important and significant changes. The latest estimate of what they are likely to mean is that of the League of Nations Committee which was responsible for a study of European population prospects, published in 1944. The estimates made in connection with this enquiry take no account of war casualties or of migration. They are estimates of what would have happened to the populations of the various countries if pre-war trends had continued and if there had been no war. On this basis it is reckoned that the population of the United Kingdom up to 1970 would have been likely to alter as follows:

League of Nations Estimate of Population of United Kingdom, 1940–70, on Basis of Pre-war Trends

(*Millions*)

	Actual	*Projected*						
	1939	*1940*	*1945*	*1950*	*1955*	*1960*	*1965*	*1970*
England and Wales	41·46	40·9	41·1	40·9	40·4	39·6	38·4	37·1
Scotland . .	5·02	5·05	5·15	5·21	5·23	5·22	5·17	5·09
Northern Ireland .	1·30	1·30	1·33	1·36	1·37	1·38	1·39	1·38
Total, U.K. . .	47·78	47·2	47·6	47·5	47·0	46·2	45·0	43·6
Eire . . .	2·95	3·02	3·08	3·14	3·19	3·23	3·24	3·24

In December, 1945, the actual *civilian* population of the United Kingdom was estimated at 45,278,000. The number in the Armed Forces and Auxiliary Services was 3,857,000. But I am not sure whether there was some element of overlap between these figures. At any rate, the actual population, despite war casualties, substantially exceeded the League of Nations estimate.

Thus, on an estimate which excludes the effects of war, the population of Great Britain (without Northern Ireland) was reckoned as likely to fall from the actual total of 46,478,000 in 1939 to 42,200,000 in 1970, or by well over 9 per cent. It is true that the Registrar-General, in an official White Paper prepared before the war but not published until 1942, put forward a very

different forecast, in which he showed the probable population of Great Britain in 1971 as nearly 46,000,000; but this forecast rested on astonishingly high estimates of increasing fertility among women, and I have not met with any statistician who is prepared to defend it. It has been most thoroughly demolished by Dr. R. R. Kuczynski in a criticism published by the National Institute of Economic and Social Research; and it is quite out of harmony with the forecasts made by other authorities, such as Dr. Enid Charles and Dr. G. G. Leybourne. It seems best to ignore it.

Effects of Falling Population

A fall of 9 per cent. in total population, even when we add to it whatever may need to be added as a consequence of the war, may seem at first sight to many people no great matter, or even a blessing. Will not a fall in population make it easier to find work for those who remain, easier for Great Britain to solve its food problems, easier for us to provide the means of good living for every citizen? The answer, unfortunately, is 'No' in each case. Unemployment, as we have seen in the opening part of this work, existed between the wars not because there were too many of us, but because we mismanaged our affairs. A large population, yielding a large market, makes it easier to produce goods cheaply, and thus helps to raise the standard of life wherever there are means of setting it to work with the requisite supplies of capital goods to help its labours. Our ability to feed ourselves will depend mainly on our ability to supplement home production with imported foods, especially of kinds which we cannot produce cheaply at home; and our ability to afford these imports depends on the efficiency of our home industries in producing exports to exchange for them—which efficiency is likely to be raised by our having a large home market.

But this is not nearly the whole of the reason why a fall in population will bring us disadvantage. The fall will not, as we have seen, be evenly spread, so as to leave the composition of the population unchanged. It will take the form mainly of a sharp decrease in the number of children born. This will affect the size of the working population only as these children reach working age (whatever that may be in the future); but as they do it will reduce the numbers available to replace in our industries and services those who die or retire. This will mean that there will be, each year, fewer relatively young workers and a higher proportion of the relatively old. The latter may be, man for man and woman for woman, just as good workers as their juniors; but they

will be definitely less adaptable to new jobs, and it may be of great importance to us, in view of rapidly changing techniques and products, to possess a highly adaptable labour force. Moreover, to the extent to which women continue to give up paid employment on marriage, there will tend to be a reduction in the total number of women available for work outside the home and in the proportion of employed women to all women. Earlier marriages would also make in this direction; but of course the position would be altered if habits changed in such a way that a larger proportion of married women continued to take paid work.[1]

Let us try to see what is likely to happen to the age-distribution of the British People, on the assumptions made in the League of Nations enquiry. The relevant figures are given on p. 435.

As against a fall in total population of 9 per cent., there will have been in Great Britain, on the given assumptions, a fall in the numbers under 15 of 42 per cent., and a rise of 58 per cent. in the numbers over 65. The population between 15 and 64 will have fallen by only 6 per cent.; but, whereas those between 15 and 44 will be fewer by 21 per cent., those between 45 and 64 will be more numerous by 25 per cent. Actually, on account of war losses, the changes are still more unfavourable to youth.

Why are we confronted with this disagreeable prospect—for disagreeable I think most people will hold it to be? The increase in the number of old people is of course to be expected as a result of the steady tendency for life to be prolonged by better hygiene, better medical knowledge and attention, better nutrition and living conditions, and greater social security. In the decade 1871–81 the crude death rate was 21·4 per thousand of population, whereas in the decade 1921–31 it was only 12·1. This crude rate includes the factor of infant mortality, for which the rate fell from 146 per thousand in 1871–81 to 72 in 1921–31. A better comparison, though it cannot be made over so long a period, is in terms of the average expectation of life. At the age of one (i.e. excluding infant mortality) the average expectation in England and Wales in 1911 was 57½ for a man and rather over 60 for a woman. By 1937 it was 63½ for a man and nearly 70 for a woman. By that time men who had lived to be 50 stood an average chance of living to be 71, and women of living to be 74.

[1] In December, 1945, the number of women workers, including those in the Armed Forces, was over one million higher than in 1939; but by December, 1946, it was less than three-quarters of a million higher. Exclusive of those in the Armed Forces and Auxiliary Services, the number of women workers was 5,094,000 in 1939 and 5,710,000 in December, 1946.

LEAGUE OF NATIONS FORECAST OF POPULATION OF UNITED KINGDOM IN AGE GROUPS, 1940–70, ON BASIS OF PRE-WAR TRENDS

(*Millions*)

	1940	*Per cent., 1940*	*1950*	*1960*	*1970*	*Per cent. 1970*
A. Under 15						
England and Wales	8·61	**21·07**	7·59	6·16	4·89	**13·18**
Scotland . .	1·23	**24·33**	1·14	0·97	0·81	**15·91**
Total, G.B. . .	9·84		8·73	7·13	5·70	
Northern Ireland .	0·34	**26·57**	0·33	0·29	0·24	**17·80**
Total, U.K. . .	10·18		9·06	7·42	5·94	
Eire . . .	0·8	**26·47**	0·76	0·70	0·61	**18·75**
B. 15–44						
England and Wales	19·25	**47·1**	18·58	16·99	14·91	**40·2**
Scotland . .	2·38	**47·0**	2·41	2·37	2·19	**43·2**
Total, G.B. . .	21·63		20·99	19·36	17·10	
Northern Ireland .	0·60	**45·7**	0·63	0·65	0·62	**44·9**
Total, U.K. . .	22·23		21·62	20·01	17·72	
Eire . . .	1·34	**44·5**	1·47	1·52	1·46	**45·1**
C. 45–64						
England and Wales	9·33	**22·83**	10·20	11·30	11·50	**30·87**
Scotland . .	1·03	**20·38**	1·14	1·32	1·45	**28·43**
Total, G.B. . .	10·36		11·34	12·62	12·95	
Northern Ireland .	0·24	**18·78**	0·27	0·32	0·36	**25·90**
Total, U.K. . .	10·60		11·61	12·94	13·31	
Eire . . .	0·58	**19·13**	0·60	0·69	0·83	**25·50**
D. Over 65						
England and Wales	3·68	**9·0**	4·53	5·11	5·84	**15·74**
Scotland . .	0·42	**8·28**	0·49	0·54	0·64	**12·47**
Total, G.B. . .	4·10		5·02	5·65	6·48	
Northern Ireland .	0·12	**9·25**	0·13	0·13	0·16	**11·35**
Total, U.K. . .	4·22		5·15	5·78	6·64	
Eire . . .	0·30	**9·88**	0·31	0·32	0·35	**10·69**

No one, I imagine, will wish this tendency to be reversed. The bad thing is not the prolongation of life, but the failure to hold it in balance by maintaining the number of young people. Over the period from 1871–5 to 1931–5 the crude birth rate per thousand of population fell from 35·4 to 15·3—a rate which was approximately maintained between 1935 and 1939. The fall was not at a uniform rate: there was a particularly sharp fall during the first World War, followed by a post-war 'bulge' which made up a part, but not the whole, of the loss. After the 'bulge' the fall again became sharp, and was again accentuated during the depression of the early 'thirties. In the years just before the war there was a slight recovery, due to a considerable increase in the number of marriages, many of which had been postponed during the slump. Between 1931 and 1938 the number of married women under 40 rose by more than 10 per cent., whereas the population increased only by 3·2 per cent. The maintenance of the birth rate during the years just before 1939 was therefore not a clear sign of any real reversal of trend. It was a 'bulge' like that which followed the first World War, though on a smaller scale.

It is, however, a notable fact that the number of births, after a small initial setback, continued to rise during the years of war. Here are the annual figures, compared with the average of the years 1935–9:

NUMBER OF LIVE BIRTHS AND OF MARRIAGES IN THE UNITED KINGDOM, 1935–9 AND FROM 1940

	Live births, 000's	*Marriages, 000's*
1935–9 (average)	724	422
1940	719	534
1941	704	448
1942	775	429
1943	810	345
1944	872	349
1945	802	455
1940–5 (average)	780	427

Thus, the number of marriages rose sharply in 1940, and thereafter declined, rising again as demobilisation began in 1945. The number of births began to rise in 1942, and reached its peak in 1944. Wartime allowances and the improved treatment of children and nursing mothers under wartime conditions obviously played a large part in these tendencies. It is still a matter of uncertainty how much of the wartime rise in births is anticipatory, and how much stands for a real increase in fertility.

It is easy to see that if the birth rate had continued to fall at

anything like the pace at which it had been falling in the pre-war decades, no possible decline in death rates could have countered its effects on total population. Nor is there room for such a further fall in infant mortality as would materially redress the balance between youth and age. Infant mortality varies a good deal from year to year, with a general tendency to fall. In England and Wales it was 76 per thousand in 1921–5, 68 in 1926–30, and 62 in 1931–5. In subsequent years up to 1939 it was 59, 58, 52 and 50, rising in the next two years to 57 and 60, but falling to 51 in 1942 and less than 50 in 1943. The lowest rate in any country in 1939 was that of Holland, which was 34. Norway and Sweden had rates of 37 and 39, Switzerland one of 43, and the United States, for whites only, 44. There is, then, room for improvement in this respect; but even if our rates were as low as the Dutch, the number of those born who would survive infancy would only be increased by less than 2 per cent. This would be much; but it would not materially affect the problem of age-distribution in the coming decades. There is room for greater improvement in Scotland, where the infant mortality is a good deal higher—it was 69 in 1939 and the same in 1942; but even this would not much alter the general picture. In Great Britain as a whole, out of every thousand children born, 81 more survived infancy in the decade 1921–31 than in 1891–1901. If we had in the meantime pulled our rate in 1939 down to the Dutch level 119 more would have survived. Evidently this is a matter on which social reformers ought to concentrate their attention.

Why was the birth rate falling so fast? The phenomenon of decreasing fertility is by no means peculiar to Great Britain. It has been occurring over most of Western Europe and in the United States as well. The countries with the highest birth rates are not the old, advanced industrial countries, but predominantly peasant States. Mexico, Egypt, Chile and India head the list of those for which up-to-date figures are available. Among European countries, Roumania, Spain (before the Civil War), Portugal, Yugoslavia and Poland head the list. Japan comes just between Portugal and Yugoslavia. The Soviet Union is known to have a high birth rate, but there are no up-to-date figures. The highest level in Western Europe is that of Holland—20·6 in 1939, as compared with 45 in Mexico and 26 in Yugoslavia and Japan. Germany, where the Nazis had made great efforts to raise the rate, was just behind Holland. Our rate for Great Britain—15·3 in 1939—was among the lowest of all. It was the same as Belgium's and rather higher than the rates in Sweden and France.

Usually high birth rates and high death and infant mortality rates go together. White South Africa is a notable exception, and at a lower level of births so are Holland, New Zealand, Canada, and Germany. New Zealand, with a birth rate of over 20 per thousand, a death rate of under 10, and an infant mortality rate of 42 in 1939, is excelled only by Holland in its favourable combination of the three rates. Here are the 1939 rates, compared with the 1942 rates, for fifteen countries, chosen as illustrating widely different situations:

BIRTH AND DEATH RATES FOR FIFTEEN COUNTRIES, 1939 AND 1942

	Birth rate	*Death rate*	*Excess of births*	*Infant mortality rate*	*Birth rate*	*Death rate*	*Excess of births*	*Infant mortality rate*
	1939				*1942*			
England and Wales	15·1	11·6	3·5	50	15·6	11·1	4·5	51
Scotland	17·7	12·6	5·1	69	17·6	13·3	4·3	69
U.S.A. (whites)	16·9	10·3	6·6	44	20·9	10·1	10·8	40
Germany	20·4	12·3	8·1	60	14·9	12·4	2·5	66
France	14·6	15·3	−0·7	63	14·5	16·9	−2·4	71
Holland	20·6	8·6	12·0	34	21·0	9·5	11·5	40
New Zealand	20·2	9·8	10·4	42	23·1	11·0	12·1	37
Mexico	45·0	23·1	21·9	123	45·5	22·8	22·7	118
India	33·0	21·8	11·2	167	30·0	22·0	8·0	163
Japan	26·3	17·6	8·7	114	29·9[1]	15·4[1]	14·5	—
Roumania	28·3	18·6	9·7	176	24·4	19·5	4·9	183
Sweden	14·9	11·5	3·4	39	17·7	9·9	7·8	29
Canada	20·3	9·6	10·7	61	23·4	9·7	13·7	54
Australia	17·7	12·6	5·1	38	19·1	10·5	8·6	39
South Africa (whites)	25·3	9·4	15·9	49	25·2	9·4	15·8	48

[1] = 1941

Why the Birth Rate has Fallen

Various reasons have been given for the low and falling pre-war birth rates of most of the more advanced countries. The spread of birth-control by contraceptive methods is one explanation: the increasing desire of parents not to have more children than they can expect to bring up under good conditions and start off well in life is another: the growing emancipation of women is a third: and the desire of both parents to live a life less tied to home responsibilities is a fourth. A fifth is that the later age at which children begin earning has made them more of an expense and less of a help to their parents; and a sixth is that, with the more mobile civilisations of to-day, the desire to perpetuate the family in its traditional surroundings has lost some of its force. There is nothing inconsistent in these explanations, and probably every one of these factors has had its effect. There is no way of deciding quantitatively their several degrees of importance: nor can there

be, for men's and women's motives are mixed, and sharp separation of the factors would be unreal. It is probably true that the increase of town-dwelling makes for smaller families, though peasants, as in France, have been known to practise limitation very effectively. And I think it is also true that uncertainty and the critical spirit, as against either apathetic acceptance or positive feeling of great things to be done, make for a reduced desire to have children.

At all events, the phenomenon has existed, whatever stress should be laid on its various causes. And it is of long standing—a persistent tendency of our times. It is unlikely that it will be much affected by the institution of family allowances, desirable as these are in the interests of a better quality of citizen. True, the evidence from countries which have adopted such plans is not convincing, as in most cases the allowances have fallen a long way short of the cost of keeping a child. But it seems unlikely that even larger allowances would have a considerable effect. Though it has been shown again and again that malnutrition is most prevalent in the largest households, it by no means follows that the fear of going short is the main reason why most families are smaller than they used to be.

This is not to deny either that children's allowances are a thoroughly good thing, or that they might help in raising the number of births if other factors were also favourable. I am inclined, however, to place the main stress elsewhere—above all, on the social attitude pervading the people. If we can get back to a sense of assurance that our civilisation in this country is worth while and advancing, and that there are great deeds to be done and good hope for everybody who is prepared to do his best, I believe such an assurance will do much more than any scheme of purely material inducements towards increasing the birth rate.

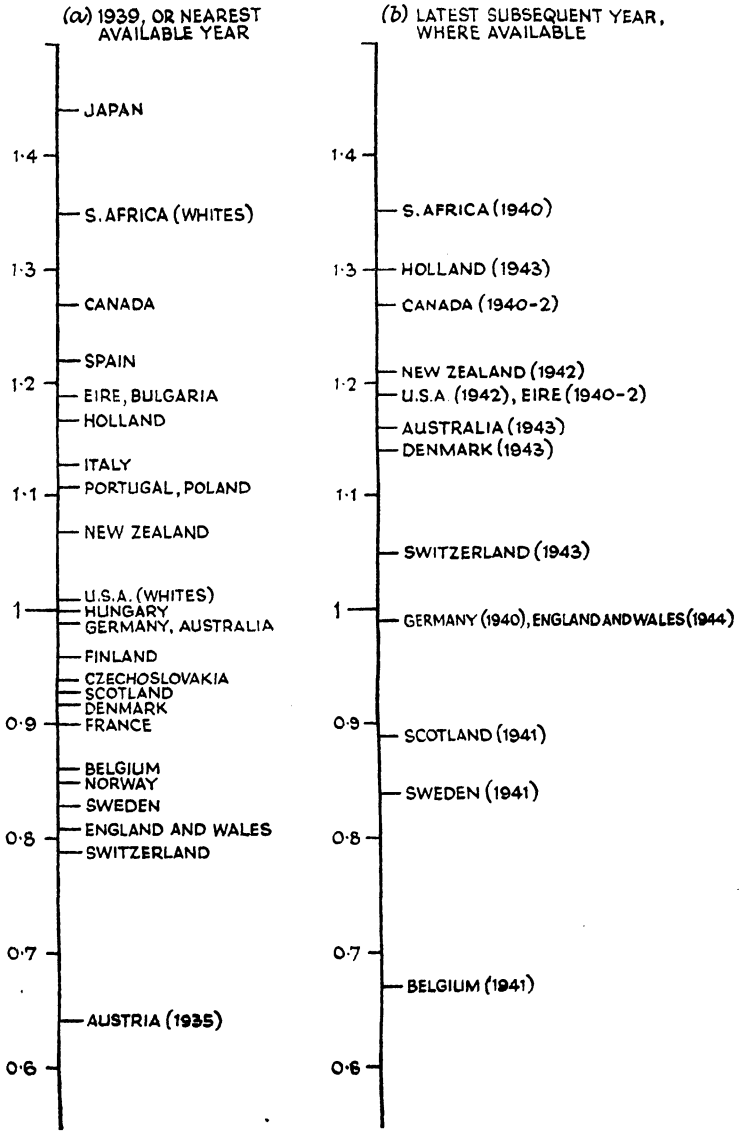
We must, however, realise that, even if there were to be a substantially greater willingness to have children, many of our population problems would still remain. No change in the number of births can affect for a long time the age-composition of our working population, or reduce the balance between younger and older workers for longer still. Nor, of course, can a greater number of births affect the growing population past working age that will have to be maintained by the labour of those who are fit to work, or the proportion they will bear to working population for the next fifteen years or more. Indeed, an increase in the number of children will obviously increase for the time being the proportion of non-workers to workers, and will thus impose a heavier burden on those who are able to work.

Only as the children grow up and become workers will the position be reversed, and the proportion of producers be again able to rise. As a matter of fact, Great Britain and other countries with low birth rates have at present a higher proportion of working to total population than countries such as the Soviet Union in which children are far more numerous.

It will be agreed, in the light of what has been said, that we ought to take steps to increase the number of births in Great Britain. The need would have been made even more evident if, instead of looking forward only to 1970, I had ventured to make use of forecasts extending still further. The really sharp prospective decline in the British population indicated by the pre-war statistics was due to occur not before but after 1970, and this decline may still be expected to occur unless the recent change in the trend of the birth rate proves to represent a persistent change in fertility, and there is accordingly a lasting rise in the numbers of children born.

Reproduction Rates

In order to make this clear, it is necessary to consider rather more closely the conditions on which changes in population necessarily depend. The crude birth rate—number of births per thousand inhabitants—states the facts, but is of little use as a means of forecasting the future. The number of births to be expected depends not only on the total size of the population but on the number of women of child-bearing age and on their fertility. We know already for a considerable number of years ahead how many women of child-bearing age there can possibly be in Great Britain, apart from the possibilities of immigration or emigration; and therefore we have the means of knowing how many children there will be at any given level of average fertility among these women. This is the basis on which all modern population forecasts are made. They begin by taking the number of women who will be available to bear children, and then apply to this number certain assumptions about average fertility based on recent trends. The conclusions thus reached are expressed in the form of 'reproduction rates.' The 'reproduction rate' shows to what extent, on the assumptions made, the population is tending to maintain itself, or to increase, or to decrease. A rate of 1 means that it is tending to maintain itself unchanged, a rate higher than 1 that it is tending towards increase, a rate lower than 1 that its tendency is towards a fall in population. What it shows is not directly what the population is expected to be at any future time, but how the number of women of child-bearing age



NET REPRODUCTION RATES FOR VARIOUS COUNTRIES, 1939 AND LATER YEARS.

in the next generation will differ from the number at present alive.

There are two 'reproduction rates,' the 'gross' and the 'net.' The 'gross reproduction rate' shows how many girls are expected to be born in the generation to come: the 'net reproduction rate' shows how many are expected to survive so as to be available to produce children in their turn. The latter is arrived at by using the tables showing the expectation of life, which are available for some countries, but not for all. There are no means of compiling either gross or net reproduction rates for most of the more backward countries; but for most of the more advanced they can be arrived at without too great a margin of error.

The net reproduction rate is obviously the really significant figure. If it stands at 1, a country is just tending to maintain its population of child-bearing women unchanged, and therefore to maintain its total population unchanged unless fertility alters in the next generation. In England and Wales the net reproduction rate stood in 1938 at 0·805, after falling as low as 0·738 in the slump year, 1933. Take it as roughly 0·8 for 1939. This meant that to every hundred women now of child-bearing age there would be born, unless conditions changed, only 80 girls who would live to child-bearing age in their turn; or, in other words, that the population showed a tendency to fall by 20 per cent. in a single generation. On the same assumptions, these 80 women would leave behind them only 64 women of child-bearing age to replenish the population, and they in turn only 51, even if there were no further fall in fertility, so as to bring the net reproduction rate below 0·8. If we were to assume instead that fertility would continue to fall at the rate at which it has been falling in recent decades, we should reach the conclusion that the population of England and Wales would be nearly extinguished in the course of the next century. But it is not, of course, necessary to assume anything of the sort, though we cannot merely assume, either, that nothing of the sort will occur. It all depends on what happens to fertility; and that, I have said, depends in my opinion mainly on whether the people of this country feel on the whole hopeful or pessimistic about the future. This, however, is only my opinion: I do not pretend that it has any *scientific* basis. The data for forming a *scientific* opinion on the matter simply do not, and perhaps cannot, exist.

How does this situation of ours compare with that of other countries? I have set out in the Chart on page 441 the latest available pre-war net reproduction rates for a number of countries for which they can be reckoned. It will be seen that, with the

exception of pre-Nazi Austria, only Switzerland was about on a level with England and Wales, and the same, despite Scotland's higher rate, is true for Great Britain as a whole, with its combined rate of approximately 0·8. But it will be seen also that Holland and Eire were the only countries of Western Europe in which the rate exceeded 1, that the United States, Canada and New Zealand stood at a little over 1 and Australia at a little under, and that of the White Dominions South Africa alone (white population only) stood high. The problem is common to nearly all the economically advanced countries. Even Nazi Germany, with all its efforts, had not raised births to the level needed for maintaining its population. Japan had the highest known rate, and Portugal the highest rate in Europe. There is no means of calculating a rate for the Soviet Union; but it is almost certainly high.

Migration

There is, of course, one factor affecting population of which account has still to be taken. The size and the composition of a people can be affected by migration—to say nothing of forcible mass deportation—as well as by the numbers of births and deaths. Immigration has been a principal factor in the very rapid increase of population in the United States, Argentina, and some of the Dominions; and emigration has done much until recent years to slow down the rate of increase in many parts of Southern and Eastern Europe. In Great Britain, migration has been in the past a highly variable factor. Up to 1931 each decade showed a considerable surplus of emigrants; but the flow varied greatly from time to time, usually in accordance much more with the attractiveness and readiness to receive immigrants of the countries of the New World than with the changing conditions in Great Britain itself. We are not, of course, here concerned with the continuous flow of emigrants from Ireland throughout the nineteenth century, which has cut down the population of that country from more than 8 millions in 1841 to little more than 4 millions now.

In the decade 1871–80, net emigration from Great Britain accounted for a loss of population of nearly 1 per cent., and in 1881–90 of more than $2\frac{1}{2}$ per cent. In the ensuing decade the loss was only $\frac{1}{8}$ of 1 per cent.; but it rose again to nearly 2 per cent. in 1901–10 and to over 2 per cent. in 1911–20. In 1921–30 it was $1\frac{1}{8}$ per cent. Only with the advent of the world slump did immigration into Great Britain come to exceed emigration—mainly because of the return of British nationals who had lost their means

of living abroad. From 1931–7 the average annual *increase* of population through migration was nearly 1½ per cent.

We shall get a better picture of what has been happening to the national forces affecting the growth of population if we eliminate this variable factor of migration. I have done this in the following Table:

CHANGE IN POPULATION IN GREAT BRITAIN AS AFFECTED BY MIGRATION, 1871–1938

	Average annual increase in population, per 1,000	*Average annual loss or gain by migration, per 1,000*	*Increase in population if the direct effect of migration is eliminated, per 1,000*
1871–81	13·0	−0·9	13·9
1881–91	10·6	−2·6	13·2
1891–1901	11·3	−0·3	11·6
1901–11	9·8	−1·9	11·7
1911–21	4·6	−2·1[1]	6·7
1921–31	4·6	−1·3	5·9
1931–8	4·4	1931–7 +1·4	3·0

The final column here comes much nearer than the first to giving a picture of the results of changes in the forces affecting survival, though of course emigration, as a selective process which removes people in the prime of life more than children or elderly folk, has also important indirect effects on the rates of births and deaths.

What is likely to happen in this matter of migration, as far as Great Britain is concerned, now that the war is over? The net inflow of returning emigrants, we may hope, will cease, if the world, and more particularly the United States, succeeds in managing its economic affairs a good deal better than it did in the inter-war period. If policies of full employment are carried into effect in the leading countries, there will be no economic compulsion to send emigrants back defeated to their native countries, whether they will or no. This, of course, does not mean that no emigrants will return; for some may come back of their own free will. But it probably will mean a resumption of the *net* outflow from the more densely populated countries to those with larger undeveloped resources.

Even with policies of full employment attempted, it may be regarded as doubtful whether there is likely to be any large-scale resumption of British emigration to the United States. I say this, partly because I doubt the capacity of the United States to make

[1] Excluding war deaths abroad.

a full employment policy work without much larger social changes than seem probable there in the near future, and partly because I doubt the willingness of the Americans to accept immigrants in really large numbers, though they will presumably continue to prefer British immigrants to those from the more backward countries, which need emigration more. There is much more likely to be a resumption of emigration to the British Dominions. Canada is now at a stage of extraordinarily rapid economic development, and should be capable of absorbing additional workers at a considerable rate, if its affairs are reasonably well managed and it can avoid too much contagion from the instability of the United States. Australia has learnt from the war situation to be more eager to attract white immigrants and, let us hope, to manage the business of settling them with less inefficiency. New Zealand has a fine record of expanding prosperity. South Africa, with its high rate of national increase, is less likely to attract settlers, because it has never been a country in which the English emigrant can prosper without capital.

Even if emigration does become a factor making for further decrease of population in Great Britain, it is unlikely to be comparable in importance with the factors I have already discussed. It should, however, be noticed that, from the purely British standpoint, it is a factor of strongly adverse effect. Emigration, I have said, is a highly selective process. It tends to take away just those younger workers whom this country will be least able to spare, and to increase the proportion of older people in both the total and the working population. There may be other reasons for encouraging it; for we have no right to take a narrowly insular view, or to stand in the way of those who see a better prospect of success and happiness overseas. But we must not blind ourselves to the truth that any large-scale emigration will be bound to aggravate our own social and economic difficulties at home, even if it brings compensation in the form of expanding markets in the newer countries.

Economic Effects of Population Changes

What is the general upshot of this chapter? First, the declining population with which we are threatened will not tend to cure our unemployment problem, if we are foolish enough to allow such a problem to exist: nor will it make for an improved standard of living for those who remain. Its economic effects will be definitely adverse; for it will mean an ageing population, including a higher proportion of elderly, retired persons for the producers to maintain and, among the producers, a higher

proportion in the older age-groups, and therefore less adaptability to the demands of changing techniques and changing events.

We ought accordingly to do all we can to arrest the decline; but no measures that can be taken will prevent us from passing through a difficult period, in which the average age of the adult population is bound seriously to rise. Even if we succeed in increasing the fertility of the present generation of women, it will be a long time before our working population can return to a satisfactory age-structure, and in the meantime the effect must be in the long run to increase the proportion of non-workers to workers in the total population. In particular, we are facing a big reduction in the numbers of boys and girls entering gainful occupations; and we are proposing further to reduce the supply of juvenile labour by raising the school-leaving age. This, of course, will affect the numbers of new entrants only in the years in which the raising actually takes place; but it will permanently reduce the total supply. Nevertheless the higher school-leaving age is a thoroughly good thing, both from the standpoint of citizenship and the quality of life and from that of production—for it should lead to a great improvement in the intelligence and efficiency of labour as a whole. But it will obviously call for a considerable change in the methods of using juvenile workers. There will be in future none to spare for blind-alley occupations or for merely routine jobs which provide no real training. It will be necessary to make the most of every young worker by training him or her for the highest type of work which is within his or her capacity. It is especially important to allow those whose training has been interrupted by the war to return to it under the best possible auspices, and to pick up as best may be the arrears of effective education which have been caused by wartime disorganisation of schools, by evacuation, and by the general upsets of the time.

Effects on Labour Supply

Apart from war casualties or changes in social habits, the actual size of the working force in Great Britain is not likely to be very different in the near future from what it was before the war. The League of Nations estimates already cited give, for Great Britain, a total population between the ages of 15 and 64, first rising slowly from 32 millions in 1940 to 32,380,000 in 1950, and then falling, at first slowly, to just over 30 millions in 1970. The slight rise up to 1950 will be more than offset by the raising of the school age; and accordingly working population will decline by more than the total of war casualties unless the numbers are

made up by an increase in the proportion of women in 'gainful employment,' or by a postponement of the normal age of retirement. The latter seems highly unlikely, in view of increasing provision for pensions; but it may be desirable to take steps at any rate for a time to encourage elderly persons who are still fit for work to remain in employment in order to make good some of the gaps left by the war in the nation's working force. In the main, however, these gaps must be filled, if they are filled at all, by greater employment of women outside the home.

How to Check the Fall

This raises the question whether such employment need make, as it undoubtedly might, against an increase in fertility. Earlier marriage would be likely, by itself, to mean earlier retirement from 'gainful employment.' But could not the conditions of work be so arranged as to avoid this necessity? This is partly a matter of making really adequate provision for paid absence from work before and after childbirth, and partly one of better provision both for the care of children during working-hours, including communal meals at school, and for better restaurant facilities for adults as well as their children. A larger female working force involves changes in social habits and provision, including a considerable development of the practice of taking meals outside the home. There has been an extensive development during the war of arrangements both for looking after children in crèches and other centres and for restaurant provision in municipal and factory restaurants and canteens; and if we want more married women to remain at work it will be indispensable not merely to maintain but greatly to extend these types of provision. They are, of course, desirable on other grounds, quite apart from this; for it is important to do all that can be done to lighten the labours of women in the home, and well-run communal restaurants and social centres could make a great contribution to the development of the spirit of community and to the breaking down of the domestic isolation which is so marked a feature of many of the newer urban settlements. These aspects, however, fall beyond the scope of the present chapter. What is plain is that, whatever else we do, we must endeavour to arrest the prospective fall in population if we are not all to be worse off; and I think it is hardly less plain that the best way of setting about this is, by our general policy and courageous handling of our problems, to put back hope into the people's hearts.

CHAPTER II

THE NATIONAL INCOME

How well off in terms of material goods and services is the British people in a position to be in face of the serious losses which it has undoubtedly suffered as a consequence of the war? Such a question admits, of course, of no positive answer, because it all depends on the use we make of our means of creating wealth and on our success in exchanging what we make for the products we need to get from abroad. It depends partly on our employment policy; for obviously a nation cannot expect to be well off if it persistently leaves a substantial part of its man-power unemployed. But it depends on more than that; for it is quite possible to employ all the available workers, but to use their services with so much inefficiency that they produce far too little to satisfy the needs of the people. It is also possible so to misdirect the use of man-power that even if total production is high most people go short of necessary goods while a few enjoy the luxuries to which preference has been given in the allocation of resources. Finally, it is possible to have to go short of some things we want because we cannot persuade foreigners to buy enough of our own products to provide us with the means of paying for the imports we should like to acquire.

The problem of national wealth and welfare is thus partly one of using the available resources to the full, partly one of using them as efficiently as possible, partly one of allocating the resources and dividing the product so as to achieve the best social result, and partly one of the successful conduct of international trade. Nor can we leave out of account the conditions under which the creation of wealth takes place. It may be preferable to do with rather fewer material goods and services than we could produce if we all worked to the last ounce of our physical energy, or if we paid no attention at all to the pleasurableness or irksomeness of the conditions in our mines and factories. We have in fact to take account not only of the usefulness, or utility, of the products of labour, but also of the 'disutilities' involved in producing them. We have to strike some sort of balance between our desire for more goods and services on the one hand and, on the other, our desire for leisure to enjoy them and for satisfactory conditions while we are engaged in production.

There is clearly no way in which we can exactly measure these things one against another. Some of the older economists used to suppose that this got done for us, so as to achieve the best result, by the mere higgling of the market. They were content to accept 'demand'—the prices buyers were ready to pay—as measuring accurately the 'utility' of everything bought and sold and to argue that, if a man worked for a certain wage, it could be assumed that the 'utility' of the wage exceeded the 'disutility' of the labour with all the conditions attached to it: so that, by merely letting things alone, we could be sure that the right things would get produced, because more would be offered for them than for other things, which would therefore not be produced, and the right balance would be struck between work and leisure. I doubt if anyone now seriously defends this fantastic view, which rests on a series of evidently false assumptions. It was assumed, for example, that a man was free to refuse to work if he found the conditions unduly irksome, and even to stop working at any point at which he thought the 'disutility' of further labour exceeded the 'utility' of what he could earn by working more—as if a man in a modern factory could pack up and go home when it suited him or refuse to work on Mondays or Saturdays or whenever he felt disinclined to get out of bed in the morning. It was also assumed that the offer of a higher price meant that the thing for which the higher price was offered represented so much more 'utility'—though clearly the prices people are prepared to offer for things depend not only on how much they want them but also on how rich they are. A rich man can outbid a poor man very easily, but it does not follow that a thing for which he is prepared to offer £1 represents more utility than a thing for which a poor man cannot afford to offer more than 1*s*.

Needs, Wants and Demands

Wealth and welfare are *social* concepts, and the things on which societies put the highest valuations vary from society to society, in accordance with differences in social structure. A society in which incomes are fairly equally distributed will have different scales of valuation from a society in which gross inequalities exist. Moreover, the distribution of power, as well as of incomes, affects the issue. A society in which power is concentrated in the hands of a small upper class will probably care very little whether the conditions under which the working classes labour are good or bad; whereas the more democratic a society is in its distribution of power the more it will be likely to care about the conditions of

labour, as well as the rewards. It will, however, be impossible in any society so to arrange the affairs of wealth-production as to make sure of reaching the best conceivable result. We cannot mathematically subtract the 'disutilities' of production from the 'utilities': nor can we even make certain that the gross sum of the 'utilities' shall be the largest that could be created with the amount of labour and other resources we are able and prepared to employ. We cannot do this latter, because there is no quantitatively accurate standard which we can apply all round. If we give up, as we must, the belief that 'utility' can be simply measured by what buyers are prepared to pay, we necessarily adopt a double standard of what it is worth while to produce. Of some things we say that they ought to be produced in certain minimum quantities, because they are *needed*, irrespective of how much people are prepared to pay for them of their own wills: beyond these minima, and in relation to the entire supply of things we do not regard as indispensably needed, we adopt a different standard, and are content to go by what people *want*, and to accept the measurement of wants by what people are prepared to pay, provided, but only provided, that we are satisfied that incomes, and therewith the abilities to translate *wants* into *demands*, are reasonably distributed among the people.

The Double Standard and the Social Minimum

Let me illustrate what I mean by this double standard. We say nowadays that every citizen ought to have a tolerable education and a tolerable house over his head. We therefore measure our requirements in schools and houses, not by what people are prepared to pay for education or house-room, but up to a certain point by what we think they need, whether they can or are willing to pay or not. We are rapidly coming to think in the same way about nutrition, and to argue about our food supply in terms not of the sums people are prepared to spend on food but of human needs. We are also coming to apply this principle of minimum need to medical attention; and of course we apply it to an increasing extent in a number of other fields—to parks, open spaces, playing fields, green belts, and amenities of living in town and country, and, in wartime, to a great many other things besides.

Where this principle of minimum needs is recognised, there are three ways of applying it. One is for the community to take the responsibility of seeing that everybody actually gets the necessary minimum of the particular good or service. That is how we deal with schooling and are proposing to deal with doctoring. It is also

the method we use in supplying free milk or meals to children and other special classes. The second way is for the community, without actually supplying the service, at any rate free of cost, to take steps to make it artificially cheap, in order that more people may be able to afford enough of it to meet their needs. This is the method which is followed in subsidising the rehousing of slum-dwellers or overcrowded households. The third way is for the community still to leave the supply of the service to the higgling of the market, but to take steps to raise the incomes of those who are going short so as to enable them to purchase adequate supplies. This is what we do in the cash benefit social services, from health and unemployment insurance and assistance to old age and disability pensions; and it is what we have recently done in instituting children's allowances in the form of cash payments to the parents.

The more equally incomes are distributed in a society, the less likely are its members to be going short in considerable numbers of things which they really *need*. But this argument must not be pressed too far. Some quite well-to-do parents might neglect their children's schooling, or even their elementary needs in respect of health or nutrition; and some grown-ups would continue to live in insanitary dwellings even if they could afford better ones, and better ones were to be had. Even if there were no *poverty*, in the sense of a sheer inability to afford the necessaries of decent living, some people would need to be kept up to the mark in the right spending of their incomes, and it would still be desirable for the State to ensure for all, by communal provision, good education, good medical attention, good housing conditions, and a number of other basic requirements of the good life. A society of equals, or near-equals, in the matter of incomes could, however, if it thought fit, safely leave people to allocate most of their spending in their own way, and could allow the character of the national production to be settled for the most part by the *demand* for the various goods and services. It would be a question of convenience only whether to extend or restrict the range of communal provision; and the right answer would depend on social habits and on the general conditions of living prevalent in a particular society. The ancient Spartans, like the 'dons' in Oxford and Cambridge to-day, fed together at a communally provided table; but it does not follow that this is desirable or necessary to the spirit of community. People may prefer to feed in their own homes, or to have an ample supply of restaurants at which they can take their meals when so disposed, and pay for them according to their varieties of taste or habit in eating and drinking.

Social Incomes in Kind

On the other hand, where incomes are very unequally distributed there is a stronger case for pushing communal provision further than it *need* be pushed under conditions of greater equality. Even when, by means of children's allowances, we have made it possible for the poor to feed their children adequately, they will be able to do so only by refraining from using the additional income in other ways which represent other real *needs* or very urgent *wants*. Therefore many, taking inequality for granted, have argued that it is safest to provide goods and services—relief in *kind*—rather than money, in order to be sure that the needs in question will be met. This may be unavoidably necessary, where poverty presses hard; but how much better would it be to make an end of such poverty, so that we might be free, as a community, to consider, without such fears and on grounds of convenience alone, whether it is best to deal with this or that need by communal provision for meeting it, or by giving everyone means enough to satisfy it for himself and his dependants without undue deprivation of other things!

Strictly speaking, a want is for something which a man desires for himself and of his own accord, whereas a need is for something that he ought to want, either for himself or for others. The distinction cannot, however, be sharply drawn; for we usually think of the purchases of a household as expressing its 'wants,' though they include what the parents buy to meet their children's 'needs.' Needs in this narrow range find expression in the prices offered in the market without any public intervention, whereas the State, or some other public or charitable body, has to intervene in order to arm with purchasing power needs which the individual possessors of income are not prepared, or are not able, to translate into market demands. Wherever we draw the line, there has to be a double standard, unless we are prepared to say that the State ought to leave it entirely to private possessors of income to decide what to buy, even if that means unhealthy, uneducated children or aged people starving in garrets and cellars or profligate expenditure on things that are positively noxious. Only the most extreme individualist can be in favour of this; but of course many less doctrinaire individualists would like to get as near to it as they dare. The practical question is, where to draw the line between providing collectively for men's needs, or taking steps to stimulate the consumption of useful and discourage the consumption of noxious things, and leaving each person to spend his income as he pleases without any attempt to influence or direct his choice.

Taxes and Subsidies

Society, we have seen, has an alternative way of providing for the better satisfaction of what it deems to be men's needs, if it does not see fit to supply these needs in kind. It can cheapen the goods and services of which it desires to promote the use, and can make dear those of which it wishes to see less consumed. Most modern communities put high taxes on alcoholic drinks, for the purpose of diminishing the consumption by making them cost more; and on the other side, as we have seen, States subsidise education, where they do not provide it free, and also lower house-rents by means of subsidies. During and since the war, the State has gone much further and has kept the prices of many essential foods low by subsidising the producers. Similarly, in time of peace, a national nutrition policy might include the supply at cheap rates of the range of foods regarded as necessary for a balanced diet, while leaving open a wide range of choices to suit different tastes.

Of course, subsidies, like grants of cash incomes or of 'relief in kind' to consumers, have to be paid for. They form part of the public expenditure, which has to be met out of taxation or borrowing in one form or another. They are ways of altering the effective distribution of incomes. In what ways and to what extent they alter it will depend on the tax system. The advantage to the poorer sections of the people of a redistribution of incomes through the social services may be more than cancelled if at the same time taxation is readjusted so as to bear more heavily on the poor. When we are considering how the national income is distributed, we have to go through three distinct calculations, asking (1) how it is distributed in the first instance, in wages, salaries, profits, interest, rents and fees, (2) how it is redistributed by the grant of benefits under the social services and by the payment of interest on public debts, and (3) how the distribution is further affected by the incidence of taxation on the various groups and classes.

What is the National Income?

With these preliminary considerations in mind, we can proceed to study the size and distribution of the national income of the British people. So far we have been thinking of incomes as consisting of sums of money, of varying amounts, received by different persons in the course of a year either as rewards for some sort of work or as payments for the use of certain property, real or fictitious, of which society recognises them as the owners. In fact, however, the wealth of a country consists of things and not of

money, which is merely a way—and not always a satisfactory way—of expressing the value of different things in common terms. If we want to add up a collection of things—say, a man's possessions at the time of his death—we can do this only by putting upon each thing a money value and then adding up these values. One cannot add a ton of coal to a house, or even so many pairs of socks to so many pairs of boots, except by assigning them values; and money is the method of valuation which we are accustomed to use. Similarly with incomes. The real income of the community consists of the things it can produce during any given period such as a year, *minus* such things as are needed to replace things that wear out during the year, *plus* such things as the community is entitled to receive from abroad without sending out anything in return (interest or dividends on capital assets situated abroad) and *minus* such things as it has to send out to foreigners without return. But we have grown so used to thinking in terms of money rather than of real things and to making our bargains in terms of money that it is quite difficult to think back to the realities which this money represents. It is easy enough to understand that the money incomes paid out in the course of production represent the values of the things produced and are in fact used mainly in buying these very things. But what is owed to us from abroad and what we owe abroad are fixed, not as things, but as sums of money which vary in purchasing power; and it is not so easy to realise that these sums of money also stand for real things. Countries can pay their debts only in things; for if they pay in money, the money must be convertible into things, or no one will be ready to accept it. From this standpoint gold is a thing: it has a value of its own anywhere, unlike the paper money and the token coins which we use for everyday payments. These latter are valid only within the country which has issued them: gold is valid everywhere, because its value is in itself (intrinsic), and not merely in the words and symbols that are stamped upon it.[1]

Let us for the moment leave out the complications which arise out of debtor and creditor relationships between countries, and also those which arise out of foreign trade. Let us confine our attention to the national income as far as it consists of things which are both produced and consumed within a country. In effect, let us take the imaginary example of a self-contained country which has no trading or other economic relations with the outside world.

[1] I do not of course mean to imply that the relative value of gold and of other things is fixed, any more than the relative value of a ton of coal and of a pint of milk.

In such a country the national income available for use would be the current product of the national man-power, working upon natural resources with the aid of capital goods produced in previous years. Or rather, this would be the *gross* national income; but in order to arrive at the *net* national income it would be necessary to deduct such products as were needed to maintain the existing capital equipment without loss of efficiency. Obviously, a community which failed to do this would be 'living on its capital' and would rapidly lose its productive power; and it is most convenient to deduct the necessary provision for maintenance and renewals at the outset, and to regard as *the* real national income the current product *minus* this provision.

Services as Income

The national income consists of services as well as goods. Not only transport workers and workers in the distributive trades, but also doctors, actors, professional footballers and teachers—to take only a few examples—add their quotas to it; for any service that is in demand or is regarded as useful and paid for as such is a part of production. It is usual to leave out unpaid services, such as the work of housewives or the immense amount of voluntary service done by all sorts of people in their spare time, though these things are also really part of the income of the community. They are left out because there is no means of valuing them in comparison with other services, for which people are paid.

Services, unlike most physical goods, cannot be stored. They have to be consumed at once, or not at all. But there is an analogy to the provision for replacement of capital goods in the need to apply a part of the nation's man-power to training persons in the various kinds of skill so as to replace those who die or retire during the year. The nation's working force, for the supply of goods and services alike, must be kept up to standard equally with the capital equipment, if its productive power and therewith the national income are not to fall off.

The National Income Before the War

There is, as we have seen, no way of adding up all the goods and services produced during the year except by using money as a common measure. The national income is therefore expressed as a sum of money. The national income of the United Kingdom in 1938, the last complete year before the war, is officially reckoned to have been about £4,600 millions, which for a population of about 47,600,000 persons, including children as well as adults, gives an income of roughly £96 per head.

This national income was all derived either from the rendering of some service or from the ownership of land or other property. It does not include in addition such incomes as were drawn by persons who contributed neither services nor the use of property in return. Thus, no allowance is made for incomes derived from social insurance contributions or from rates or taxes, as these incomes have to come out of the incomes which are received in return for work or the use of property. The recipients of interest on the national debt, of war pensions, of help from the Assistance Board, or of non-contributory old age pensions are paid out of the taxes, which are levies, direct or indirect, upon other people's incomes. Public Assistance comes mainly out of local rates, which are a similar levy. Health and unemployment insurance benefits are paid for partly out of the taxes and partly out of contributions levied on workers and employers. There are complications about what should be counted in as part of the net national income and what should not; but they need not detain us now. The essential point is that the real national income consists of the sums paid out for the rendering of services or for the use of property, and of nothing else, however this total may be *redistributed* subsequently. The interest on the national debt is not real income in this sense, because the national debt is not real capital, and does not represent actual property useful in production.

The national income, in the sense here given to the term, accrues to (1) wage-earners, (2) salary-earners, (3) soldiers, sailors and airmen, who get pay from the State for their services and have to be counted as contributing towards the real service of national defence, (4) owners of land and buildings, (5) owners of other forms of property, who get from it either profits or interest, and (6) fee-earners, such as doctors and other professional men who work for fees and not for regular salaries. It is impossible in practice to separate group (6) from group (5), and they are accordingly lumped together in the following Table:

SOURCES OF REAL NATIONAL INCOME OF THE UNITED KINGDOM, 1938 AND 1945

(From the Budget White Paper, 1946)

	1938		*1945*	
	£ millions	*Per cent. of total*	*£ millions*	*Per cent. of total*
(1) Wages	1,735	37·6	2,840	33·5
(2) Salaries	1,100	23·9	1,585	18·7
(3) Pay and allowances of Forces	78	1·7	1,228	14·5
(4) Rent of land and buildings	380	8·2	385	4·5
(5) Interest, profits and professional earnings	1,317	28·6	2,445	28·8
	4,610	100	8,483	100

Thus, wages and salaries together accounted in 1938 for 61·5 per cent. of the real national income, and rent, interest, profits, and professional earnings together for 36·8 per cent., the small residue consisting of service pay. It is annoying that these figures cannot be broken up further; for we should like to know how much of the last item consisted of professional fees, how much of fixed interest on borrowed money, and how much of profits dependent on the financial success of business. But this break-up could be made only by the Government; and it has not been made. Nor can we tell where precisely the line has been drawn between wages and salaries, though we should like to know how many salaries there are above and below such and such levels and how much they account for—for obviously the group, salary-owners, includes at one end many persons who belong essentially with the wage-earning class and at the other managing directors, high civil servants, and others in receipt of incomes of thousands of pounds a year.

In default of this information we can say only that in 1938 well over two-thirds of the national income as defined was being paid out in return for personal services of all sorts (including those of professional workers) and less than one-third as payments for the use of property. In the United States in 1938, almost exactly one-third of the national income went to property-owners, and two-thirds as rewards for personal services of one kind or another.

Transfer Incomes

Not included in this classification are the incomes described as 'transfer incomes,' i.e. those paid out of taxes, rates or contributions levied on the incomes we have counted already. The White Paper gives the total of such 'transfer incomes' as £475 millions, made up of pensions (£132 millions), benefits (£138 millions), and 'others' (£205 millions—presumably in the main interest on the national debt). Some 'transfer incomes' went to poor people, but the interest on the national debt went largely either to rich people or to institutions, such as joint stock companies or colleges or banks, which held blocks of the debt among their income-producing assets.

The Distribution of Incomes by Size

The White Paper breaks up incomes in another way—according not to their origin but to their size. In this second total part of 'transfer incomes' is included, but not social insurance benefits National debt interest has to be included here, because it swells the size of a person's total income just as much as receipts from

any other source. The number of recipients in each group is also given, but there is of course no indication of the source or nature of the income, as many persons' incomes are made up partly of wages or salaries, say, and partly of interest or dividends. Unfortunately, there is no indication of the number of recipients in the bottom group.

DISTRIBUTION OF INCOMES BY SIZE, UNITED KINGDOM, 1938 AND 1944.
PRIVATE INCOMES BEFORE AND AFTER DIRECT TAXATION

	Number of incomes, thousands	*Aggregate income before tax, £ millions*	*Per cent. of total*	*Aggregate income after direct taxes, £ millions*	*Per cent of total.*
A. 1938					
Under £250	—	2,681	53·3	2,676	57·8
£250–£500	1,745	595	11·8	578	12·5
£500–£1,000	500	350	6·9	311	6·7
£1,000–£2,000	195	270	5·4	224	4·8
£2,000–£10,000	97	360	7·2	256	5·5
Over £10,000	8	170	3·4	84	1·8
Other incomes (mainly paid to corporate bodies)	—	605	12·0	499	10·8
Total	—	5,031	100	4,628	100
B. 1944					
Under £250	—	3,569	39·7	3,479	49·4
£250–£500	5,200	1,830	20·3	1,590	22·6
£500–£1,000	1,400	995	11·1	730	10·3
£1,000–£2,000	520	729	8·1	454	6·4
£2,000–£10,000	117	415	4·6	195	2·8
Over £10,000	8	155	1·7	30	0·4
Other incomes (mainly paid to corporate bodies)	—	1,301	14·5	573	8·1
Total	—	8,994	100	7,051	100

The Effects of Taxation

Thus, more than half the national income, in this extended sense, was paid to persons getting less than £250, about 19 per cent. to persons getting between £250 and £1,000, about 16 per cent. to individuals getting over £1,000 and about 12 per cent. to corporate bodies, including educational and philanthropic agencies as well as business concerns. But if these incomes are reckoned after income tax and surtax (but not other taxes) have been deducted from them, the proportions change to 57·8 per cent. for those under £250, 19·2 per cent. for those between £250 and £1,000, 12·1 per cent. for those over £1,000, and 10·8 per cent. for corporate bodies. The share of the lower group is increased, that of the middle group remains nearly unchanged, and that of the rich is reduced.

This, however, is a very misleading way of stating the position. Not only direct taxes on incomes, but all taxes have to be paid by somebody; and the poor are taxed (or were before the war) mainly by way of indirect taxes on goods and services, insurance contributions, and local rates on houses. In 1938 total taxation amounted to £1,161 millions, of which only £403 millions is included in the deductions made above. Another £146 millions consisted of contributions to insurance funds and other direct taxes, £424 millions was levied as indirect taxation which entered into the prices of consumable goods and services, £165 millions was accounted for by other taxes falling on income, and the residue by tax liabilities of all sorts accrued but still unpaid.

The poorer classes of the community were taxed mainly under these other heads, and not directly, as many of them have been since income tax was spread much more widely during the war. It is impossible to calculate precisely how much taxation was paid by those in the lower income groups; but indirect taxes on commodities, insurance contributions, and local rates fell heavily on these groups. Colin Clark has calculated that in 1935–6 the working classes paid about one-third of the combined total of all taxes, local rates, and personal contributions to insurance funds, and that the proportion had been rising sharply from the 'twenties, so that it was back nearly where it had been before the first World War. It is of course to be taken into account that the workers now receive back in social services a great deal more than they did in 1913. Colin Clark held that the net effect in 1935–6 was that about £91 millions were being transferred by taxation from the rich to the poor, after debiting to the rich the general costs of government and administration.

How the War has Affected the National Income

The war has greatly altered the entire picture. As a consequence partly of higher prices—to some extent deliberately imposed in order to check consumption—and partly of higher output, the money total of the real national income, as defined previously, increased from £4,610 millions in 1938 to £8,483 millions in 1945; but of this total the Government was claiming a very large fraction to cover war expenditure. Some of this went on pay and allowances to men and women in the forces and to their dependants; but a great deal went on paying for war supplies, both imported and home produced. In 1938 the total expenditure of public bodies on goods and services, including capital goods, was £941 millions. In 1944 it was no less than £5,256 millions, and in 1945 £5,059 millions, or appreciably more than the entire

national income of 1938. Nor was this the sum-total of public expenditure; for it does not include 'transfers,' such as debt interest, benefits and pensions. Total public expenditure in 1945 reached the colossal figure of £6,363 millions, but of this about £1,140 millions consisted of 'transfers' (£891 millions), subsidies

EXPENDITURE ON PERSONAL AND PUBLIC CONSUMPTION, 1938 AND 1945

	1938		*1945*	
A. PERSONAL CONSUMPTION	*£ millions*	*Per cent. of total*	*£ millions*	*Per cent. of total*
(1) *Consumption at Market Prices*				
(*a*) Food	1,221	29·3	1,414	25·3
(*b*) Drink and tobacco	461	11·1	1,233	22·1
(*c*) Rent, rates and water	491	11·8	517	9·3
(*d*) Fuel and light	195	4·7	265	4·7
(*e*) Other household goods	285	6·8	220	3·9
(*f*) Clothing	446	10·7	516	9·2
(*g*) Reading matter	61	1·5	88	1·6
(*h*) Travel and vehicles	273	6·6	264	4·7
(*i*) Entertainment	60	1·4	153	2·7
(*j*) Other services	481	11·5	492	8·8
(*k*) Other consumption	176	4·2	228	4·1
(*l*) Incomes in kind of H.M. Forces	17	0·4	205	3·7
Total	4,167	100	5,584	100
Adjustment[1]	−7		+50	
Total	4,160		5,634	
(2) *State Subsidies to Consumption*	15	—	250	—
(3) *Consumption at Market Prices*, plus *Subsidies*	4,075	—	5,884	—
(4) Deduct *Indirect Taxes on Consumption*	439	—	893	—
(5) *Personal Consumption at Real Cost*	3,636		4,991 (increase, 37 per cent.)	
B. PUBLIC CONSUMPTION OF GOODS AND SERVICES				
(1) *Public Expenditure on Goods and Services at Market Prices*	941		5,059	
Of which net capital investment	125		3	
Public consumption	816		5,056	
(2) *Consumption under Lease-Lend and Canadian War Contribution*	—		?	
Total	941		?	

[1] Purchases by foreigners in G.B. *minus* remittances to G.B. from abroad.

(£250 millions), or other expenditure which did not use up any part of the current output of goods and services.

Consumption

As compared with this public expenditure on goods and services of £5,059 millions, the population of Great Britain spent in 1945 on personal consumption £5,645 millions. This was £1,485 millions more than was spent on consumption in 1938; but prices were up by more than a third, and real consumption was down by about 14 per cent. The position is, however, distinctly more complicated than this suggests; for in 1945 the Government was on the one hand subsidising essential commodities to the amount of £250 millions in order to keep down the basic cost of living, while it was on the other hand discouraging consumption by high taxes on other commodities, to the amount of £893 millions, of which taxes on tobacco accounted for £409 millions, taxes on drink for £375 millions, and Purchase Tax for £109 millions.

Let us try to get a comparative picture of personal consumption as it was in 1938 and in 1945 under war conditions. A Table derived from the Budget White Paper of 1946, in which the comparison is made, is on p. 460.

Consumption in relation to Investment

Thus, we get for 1938 a combined total of £4,983 millions, and for 1945 a combined total of £10,640 millions for personal and public consumption together, at market prices. Both these totals exceed the estimated national incomes of the two years (£4,610 millions and £8,483 millions), because they include indirect taxes and local rates, which together accounted for £562 millions in 1938 and £1,354 millions in 1945. If we deduct these, and add subsidies (£15 millions in 1938 and £250 millions in 1945) we get corrected combined totals of £4,436 millions and £9,536 millions. This leaves, for 1938, a surplus income of £174 millions, but for 1945 a deficit of £1,053 millions, even though nothing has been debited on account of Lease-Lend. Out of the surplus of 1938 came what was set aside by saving for net private investment;[1] but in 1945 there was clearly nothing over for investment —indeed, even apart from Lease-Lend, we were overspending the national income by a very large sum. Whence were the means for this overspending derived? Before we try to answer that question, let us set down the comparative figures of investment as far as they are available.

[1] The figure of public expenditure for 1938 included £101 of net capital investment by public authorities.

	1938			1944	1945
(1) *Gross and Net Private Capital Investment,*[1] *including and excluding Renewals*	*Gross*	*of which renewals*	*Net*		
(*a*) Public utilities	145	80	65		
(*b*) Buildings	360	105	255		
(*c*) Plant and machinery	120	100	20		
(*d*) Other fixed capital	65	55	10		
Total	690	340	350	Not available.	
(2) *Rise or Fall in Value of Stocks during Year*			−45		
(3) *Net Investment at Home*					
Public			125	−34	3
Private			180	−275	11
Total			305	−309	14
(4) *Net Investment or Disinvestment Abroad*			−70	−659	−819
(5) *Total Net Investment*			235	−968	−805

Of course, the sale of assets held overseas must not be counted against the national income, as it was a sale of previously existing assets and not of goods produced during the year. Thus, for 1938, we have accounted for most of the income not spent on private or public consumption. £235 millions, out of the £316 millions, was spent on buying capital goods, over and above what was needed for the renewal of existing assets. The balance of £81 millions went mainly on the expenses involved in transfers of property and on life insurance.

The years 1944 and 1945 show a very different picture. Instead of a net investment at home of £235 millions, we have a 'disinvestment' estimated at £968 millions for 1944 and at £805 millions for 1945—by which is meant an estimated decrease in the value of publicly and privately owned capital assets (excluding specifically war assets) owing to a failure to make good depreciation in these assets. In addition to this, we have a net sale of overseas capital assets to the amount of £1,773 millions in the two years, following upon earlier sales of £3,213 millions between 1939 and 1943. Up to the end of 1945 estimated net sales of overseas assets totalled £4,986 millions, which is actually more than the estimated total overseas holdings in 1939. This does not mean that all these assets had been actually disposed of, but that those which were still in British ownership were mainly offset by debts owing to foreigners on account of wartime purchases—debts held in the form of sterling balances which Great Britain is under an obligation to liquidate, if and when this can be done, now that the war is over.

[1] Including capital investment in the Post Office and in public housing schemes, but not other public investment.

The Wartime Deficit

Thus, according to the official figures, Great Britain has been steadily overspending its national income during the war, and has been meeting the deficit, apart from Lease-Lend, either by the sale of overseas assets or by piling up sterling debts. Over the same period, we have been failing to keep up the value of our capital assets at home. The value of these assets, belonging mainly to private persons, is estimated to have fallen since 1939 by about £1,300 millions; but against this there is an offset, difficult to measure, in the increase of government property in the form of war factories and other buildings, aerodromes, camps, and stocks of goods. What this amounts to no one can venture to say; for a great deal depends on what is done with these assets, or the terms on which most of them are being disposed of, now that the war is over. Possibly, if good use is made of them, we shall find that the total value of our capital assets has not greatly fallen; but there is the task of adapting these assets to peacetime uses, and, quite apart from this, there is need for large expenditure in getting back to proper productive efficiency the industries which have been cut down, and have spent little or nothing on new capital goods or even on renewals during the war years.

War Savings

The decline in investment is, of course, no indication of a decline in money savings, which, on the contrary, increased very greatly during the war. The curtailment of consumption, through shortage of consumers' goods, left the public, despite high taxation, with surplus income which was saved on a considerable scale; and this money was borrowed by the Government and used in financing the war. Here is the broad picture of private savings in 1938 and in 1945:

PRIVATE SAVING IN THE UNITED KINGDOM, 1938 AND 1945

	(£ *millions*)	*1938*	*1945*
1.	*Personal Saving*		
	(*a*) Gross personal saving	234	1,396
	(*b*) *Deduct* death duties, etc.	− 90	− 133
	(*c*) *Deduct* excess of taxes due	− 4	+ 7
	(*d*) Net personal saving	140	1,270
2.	*Impersonal Saving*		
	(*a*) Gross impersonal saving	182	195
	(*b*) *Deduct* excess of taxes due over payments	− 12	+ 15
	(*c*) Net impersonal saving	170	210
3.	*Total*	310	1,480

In this Table, personal saving means saving out of private incomes. Death Duties are deducted, because they are levied on

private capital, and thus diminish its amount, whereas savings increase it. Impersonal saving means sums placed to reserve out of profits or income by businesses, or by other corporate bodies. Taxes due, but in arrears, have to be deducted in both cases, in order to arrive at the net amounts.

We see from the Table that private saving as a whole was nearly five times as great in 1945 as in 1938, and that the bulk of the increase was in personal saving out of incomes. To the total here given must be added the amounts collected as 'forced savings'—that is, of sums paid in income tax but due to be repaid some time after the war. These money savings are not represented by 'investments' in any real sense; for the sums in question have gone to finance current war expenditure, and all that remains is an increased National Debt, which is doubtless an 'investment' from the standpoint of its owner, but from the standpoint of the community is merely an obligation, against which no productive assets exist. This private saving has indeed been the most important source of the Government's wartime spending power.

SOURCES OF GOVERNMENT FINANCE, 1939–45

(*£ millions*)

	1939	*1940*	*1941*	*1942*	*1943*	*1944*	*1945*	*Total*
1. *Government Revenue*								
Direct taxes	538	725	1,087	1,375	1,777	1,988	2,041	9,531
Indirect taxes	397	487	690	871	1,014	1,112	1,119	5,690
Income from property	42	63	80	120	135	118	108	666
	977	1,275	1,857	2,366	2,926	3,218	3,268	15,887
2. *Deficit*	513	2,090	2,796	2,763	2,905	2,753	2,699	16,519
3. *Sources of Government Borrowing*								
Private saving	513	1,053	1,368	1,532	1,639	1,552	1,458	9,115
Extra-budgetary funds and local authority surpluses	66	163	183	181	145	114	8	860
Private home disinvestment	(−246)	78	406	353	403	386	377	1,757
Local authorities' disinvestment	(−70)	(−8)	23	34	38	42	37	96
Disinvestment and borrowing abroad	250	804	816	663	680	659	819	4,691
	513	2,090	2,796	2,763	2,905	2,753	2,699	16,519
4. *Total Government Expenditure*	1,490	3,365	4,653	5,129	5,831	5,971	5,967	32,406
5. *Percentages of Total Expenditure raised from Revenue and by Borrowing*								
Revenue	66	38	40	46	50	54	55	49
Borrowing	34	62	60	54	50	46	45	51

Thus, out of a total Government expenditure during the seven years (including 1931) of £32,406 millions, roughly 49 per cent. has been covered by revenue and 51 per cent. by various forms of borrowing. Lease-Lend expenditure and the special Canadian contribution of £225 millions are both left out of this calculation. Up to the end of 1945—that is, at the end of more than six years of war—the Government had borrowed in all since September, 1939, over £16,500 millions, made up as follows:

GOVERNMENT BORROWING, 1939–45

(£ *millions*)

	1939	*1940*	*1941*	*1942*	*1943*	*1944*	*1945*	*Total*
(*a*) *Public Borrowing*								
National Savings Certificates	21	167	214	232	297	265	159	1,355
Defence Bonds	22	180	174	134	121	112	154	897
Other public issues (net)	10	567	1,031	1,047	1,060	896	1,176	5,787
Treasury bills	310	129	279	151	433	537	565	2,404
Treasury deposit receipts	—	338	474	155	434	394	−158	1,637
Tax reserve certificates	—	—	17	453	177	113	41	801
(*b*) *Other Sources*								
Increase in fiduciary issue	−30	50	150	170	150	150	150	790
P.O. and trustee savings Banks	19	119	214	234	301	325	355	1,567
Unemployment, Health and local loans funds	8	38	81	96	93	87	78	481
Other extra-budgetary funds	186	516	72	−58	−155	−107	63	517
Foreign credits	—	—	87	161	−11	−24	137	350
Miscellaneous items	−33	−14	3	−12	5	5	−21	−65
	513	2,090	2,796	2,763	2,905	2,753	2,699	16,521

The total commonly quoted as representing small savings is arrived at by adding together National Savings Certificates, Defence Bonds, and increases in accounts in savings banks. Here are the totals for these three items:

62	466	602	600	719	702	668	3,819

This vast burden of mainly internal debt now confronts the people of Great Britain, over and above the huge debt left over from previous wars, which amounted in 1939 to £8,300 millions. It had been doubled by April, 1943, and had reached a total of nearly £24,540 millions by March, 1946.

THE NATIONAL DEBT, 1946

(*£ millions*)

Funded debt	3,364	Total debt	22,764
Unfunded long-term debt	11,743		
Floating debt	6,116	*Deduct:*	
Terminable annuities	14	Funding loan held by National Debt Commissioners	107
Total internal debt	21,237	Estimated assets	671
External debt	1,268		
Total nominal debt	22,505	Net total	21,986
Accrued interest on Savings Certificates	259		
Total	22,764		

The increasing size of the national debt has, of course, given rise to prophecies of financial ruin ever since the debt was first formally instituted at the foundation of the Bank of England in 1694. The national debt, which stood at £858 millions in 1815, at the close of the Napoleonic Wars, had by 1914 fallen after various vicissitudes to £650 millions; but by 1920 it was up to £7,829 millions, and the capital sum rose further, as a result of conversions, between the wars. It is now three times as large as it was after the first World War. The nominal capital of the debt, however, does not mean a great deal, except for that part of it which is repayable at par at a fairly early date. What really counts is the annual charge involved in paying interest on it, and this of course depends on the rates at which the Government can borrow. In 1914 the debt service, at £24,500,000, cost about 1·2 per cent. of the national income: by 1930, at £360 millions, it was costing approximately 10 per cent. Thereafter the State, by converting its borrowings to a lower rate, was able to reduce the burden by approximately one-third. During the second World War there was no repetition of the first-war folly which allowed interest rates to rise with each successive war loan. Interest rates have been kept steadily low; and, given a policy of full employment in future, there is no reason to suppose that the greatly increased capital of the national debt will involve in annual interest charges any larger proportion of the national income than the much smaller debt did in 1939. Such forecasts are necessarily speculative; for they depend on a number of uncertain factors—the future level of prices, the policy followed in controlling interest rates, and the success of a full employment policy in adding to

the real national income.[1] There is, however, no reason for supposing that the national income will not rise at least in proportion to the annual charge of the debt.

It has also to be borne in mind that the national debt, as far as it is held at home, does not reduce the national income, but merely redistributes it. This of course is not true of debt owing to foreigners, as this involves payment outside the country. But in the second World War, unlike the first, Great Britain, though it sold many overseas investments belonging to British citizens, ran up very little foreign debt in the form of actual bonds—though it has of course incurred a very large debt in blocked sterling owned by foreign banks and Governments. Foreigners have no doubt subscribed largely to home issues, and to that extent there will be a real charge on the national income. There will be a heavy charge in respect of sterling balances in London held by foreigners and to a considerable amount invested temporarily in the 'floating,' or short-term, debt; and, as we have seen in an earlier chapter, the handling of these balances constitutes a serious problem. But by far the larger part of the huge national debt is held by British subjects, and the interest on it will form part of the expenditure of the British people. It will be what I have called earlier in this chapter a 'transfer' income, of which the evil feature will be, not that it reduces the national income as a whole, but that it transfers part of it in an undesirable way, from the poorer to the richer classes. The right ways of dealing with this evil are twofold—the reduction of interest on the debt to the lowest practicable level, and the imposition of stiff taxes on large incomes in order to redistribute the proceeds in improved social services to those who are worse off.

Taxation During the War

This brings up the whole question of post-war taxation. In 1938 taxation of all kinds, including local rates, absorbed rather less than one-quarter of the total national income, including transfer incomes: in 1945 it absorbed well over one-third. The exact proportion depends on what is included; for example, contributions paid by firms to social service schemes or war insurances, as distinct from contributions paid by individuals, can be either included or excluded on both sides of the calculation. The general picture, however, is hardly affected. The following Table shows the situation in 1943, as compared with that which existed in

[1] Actually, in 1945–6, the cost of the National Debt for interest and management was about £455 millions, as against £223 millions in 1938–9, and under £20 millions in 1913–14. But the cost per cent. had fallen from 3 in 1913–14 to 2½ in 1938–9, and to less than 2 in 1945–6.

1938. I cannot bring it up to 1945, as no comparable Table was given in the Budget White Paper for that year.

BRITISH TAXATION, 1938 AND 1943, IN RELATION TO INCOME

(£ *millions*)

	1938	*1943*	*Increase, per cent.*
A. Direct Taxes			
(1) National direct taxation	494	1,781	260
(2) Personal contributions to compulsory schemes	55	124	125
Total direct taxes	549	1,905	247
B. Taxes on Consumption			
(1*a*) National taxes on consumption	290	915	216
Less subsidies	15	190	1,166
(1*b*) Net national taxes on consumption	275	725	164
(2) Local taxes on consumption (rates)	149	158	6
Total net taxes on consumption	424	883	108
C. Other Indirect Taxes			
(*a*) National indirect taxes not directly on consumption	81	111	37
(*b*) Local indirect taxes not directly on consumption	62	65	5
(*c*) Business contributions to compulsory schemes	54	224	315
Total other indirect taxes, including (*c*)	197	400	103
Total other indirect taxes, excluding (*c*)	143	176	23
D. Accrued Tax Liabilities unpaid			
Total unpaid liabilities	23	132	474

BRITISH TAXATION, 1945, IN RELATION TO INCOME

(£ *millions*)

Direct taxes	2,148
Indirect taxes, rates and contributions	1,074
Excess of tax liabilities over payments	— 22
Total taxes on private incomes	3,200

PRIVATE INCOME IN RELATION TO TAXATION, 1938, 1943 AND 1945

(£ *millions*)

	1938	*1943*	*1945*	*Increase per cent. 1943*	*1945*
Private income before taxation (including transfers)	5,038	8,703	9,251	73	84
Private income after taxation	3,877	5,603	6,051	44	56
Taxation as a proportion of private income	23 per cent.	36 per cent.	34 per cent.	—	—

Thus, between 1938 and 1943 net taxes and rates levied on consumption directly more than doubled; but taxes and rates levied on incomes rose by nearly 250 per cent. The very small increase in local rates on houses accounts for a good deal of this difference: and a further part is accounted for by the fact that gross taxes on consumption were partly offset by subsidies designed to keep the basic cost of living down. Compulsory contributions out of income had risen less than direct taxes on income; but it must be borne in mind that the very great rise in the latter was due to their extension to a much larger section of the population as well as to the higher rates charged. The standard rate of income tax was 5*s.* 6*d.* in 1938–9 and 10*s.* in 1943–4; but the lowering of the exemption limit to £110, and the reductions in allowances, combined with the rising level of money incomes, had raised the number of persons assessed to income tax from 7 millions in 1938–9 to 13½ millions in 1944–5. In 1938 1 million wage-earners were paying about £3 millions in income tax: in 1943–4 7 millions paid over £200 millions. In 1938–9 persons with incomes of £250 to £500 a year paid on the average less than 3 per cent. of their incomes in income tax: in 1944–5 they paid over 16 per cent.

Post-war Tax Policy

Obviously there is due to be a considerable tussle now that the war is over, as tax burdens come to be readjusted. In 1938–9 persons with incomes of less than £250 paid £5 millions in income tax: in 1944–5 they paid £90 millions. Persons with incomes of from £250–£500 paid £17 millions in 1938–9 and £240 millions in 1944–5. At the other extreme persons with more than £2,000 a year paid £190 millions in 1938–9 and £345 millions in 1944–5. To the extent to which total taxation is reduced, which group is to reap the benefit? There remains the middle group, from £500 to £2,000. The members of this group paid £85 millions in 1938–9 and £540 millions in 1944–5. Thus, if we divide into three broad groups, we find that, in income tax and surtax, those with under £500 a year paid 7½ per cent. of the total in 1938–9 and 27 per cent. in 1944–5: those with £500–£2,000 paid 28½ per cent. and 44½ per cent.: and those over £2,000 paid 64 per cent. and 28½ per cent. This change in proportion is due, of course, not to a fall in taxation on the rich, but to a very sharp increase in taxation on the relatively poor. It would have been entirely out of the question to meet any substantial proportion of war expenditure out of the proceeds of

direct taxes on large incomes, for the simple reason that even in 1944–5 incomes in excess of £2,000 aggregated only £530 millions, out of a total of £7,693 millions (excluding corporate incomes on both sides). Out of this £530 millions, in 1944–5, no less than £345 millions was paid in income tax and surtax taken together.

It has been claimed in certain quarters that this high rate of taxation on large incomes is inconsistent with the need for rapid accumulation of capital in order to bring industrial equipment up to date and to provide for its extension with a view to full employment. It is also being claimed that the reserved profits of businesses ought to be exempted from taxation with the same object. In 1944–5 corporate income amounted to £1,301 millions and contributed £728 millions to taxation, including Excess Profits Tax and National Defence Contribution. Business men naturally demanded the removal of these taxes; and clearly such a step, whatever its effects on the level of investment, would benefit mainly the richer income groups, not by adding directly to their incomes so much as by increasing the value of their capital. If no tax were levied on reserved profits, a rich man would be able to escape taxation by leaving his profits in the business for investment, instead of withdrawing them as dividends. If he wanted money to spend, he could get it by selling off a few of his shares, and could still have as much invested capital as before, because the value of each share would have been increased by the profits left as capital in the business. Exemption of reserved profits from taxation, while it would doubtless strongly encourage direct reinvestment of profits, would thus tend to benefit greatly the capital-owning classes, and to leave the poorer part of the community to shoulder an increased proportion of the total burden of taxation.

Nevertheless it is argued that the exemption ought to be granted, at any rate in some measure, because of the evident need for a high rate of investment during the post-war years. The argument would have some force if there were no alternative way of raising new capital. But, in the first place, just as much capital would be raised if the State, instead of remitting the tax, continued to levy it, but left the proceeds in the business, to accumulate as publicly owned holdings in industrial enterprises; and secondly, just as much capital would be raised if the State treated the proceeds of the tax, not as ordinary revenue for meeting current expenditure, but as a capital fund available for investment in public enterprise. There may be a strong case for a high rate of capital accumulation; but it does not follow that this

ought to be secured by tax reliefs which can only benefit the richer classes at the expense of the poorer.

These contentions apply even more forcibly to demands that the rates of taxation on large personal incomes should be reduced in order to make it possible for the rich to save more. It is surely a most chancy and uneconomical method of promoting saving to pay out large incomes to rich people in the hope that they will save most of them, instead of spending them on current consumption. All the evidence goes to show that, before 1939, the richer classes were contributing very little, except in the form of corporate reserves, to the total saving of the community. The main personal saving came from the middle income groups, and increasingly took the form of regular payments to insurance companies, superannuation funds, building societies, and other similar agencies. Much the best way of making sure that a high proportion of large incomes shall be saved is to take it away by taxation and, as far as saving is desirable, apply it to public investment under communal ownership and for communal profit. The only rational grounds for opposition to such a source are a desire to preserve private business from encroachment by public enterprise, or a desire to keep the rich rich and to impose as much taxation as possible on the poor. Of course, in practice, these two desires often go together.

The two Budgets introduced by Dr. Dalton, the Labour Chancellor of the Exchequer, in the autumn of 1945 and the spring of 1946 did not introduce major changes into the tax structure as a whole. In his first, interim Budget Dr. Dalton announced a reduction of 1*s.* in the standard rate of income tax, bringing it to 9*s.* in the £1; and he also restored some of the personal allowances suspended during the war. As against these reliefs, he stiffened up the surtax; but he allowed the concessions made earlier in the year by Sir John Anderson in respect of reserved profits used for capital development and payments to aid research to stand intact. In his first full Budget, introduced in April, 1946, he left the standard rate of income tax unchanged, but restored in part, but only in part, the earned income allowance, and put back most of the personal allowances to the pre-war level. He also slightly increased the married woman's earned income relief, and made small, but valuable, remissions of purchase tax. More far-reaching was his announcement that Excess Profits Tax was to disappear, coupled with a declaration that he was considering whether or not to replace it by some other form of levy on business profits.

The changes were not great in the aggregate, because the

financial situation left the Chancellor of the Exchequer with not much room for manœuvre. He had still to face, for the year 1946–7, a prospective deficit which he put at £700 millions, even after taking in a number of non-recurrent items on the credit side. It was evident that, from the standpoint of the Budget, 1946–7 was bound to be in effect still a war year, and that the time had not arrived for any comprehensive overhaul of the tax system. One awkward problem which lies ahead—the redistribution of burdens between national and local taxation—will have to be tackled before long, and may involve a very extensive reshaping of the whole tax-structure. It awaits, however, decisions, which are not mainly financial, about the future forms of local and regional government and about the allocation of functions and powers between national, regional and local bodies. The main struggle over the use of taxation as an instrument for securing the best practicable distribution of the national income is still to come; but already the new National Insurance Act and the new Health Scheme, as well as Family Allowances, have gone some distance towards defining the budgetary problems with which future Chancellors will have to deal. To these measures we shall come back in a subsequent chapter.

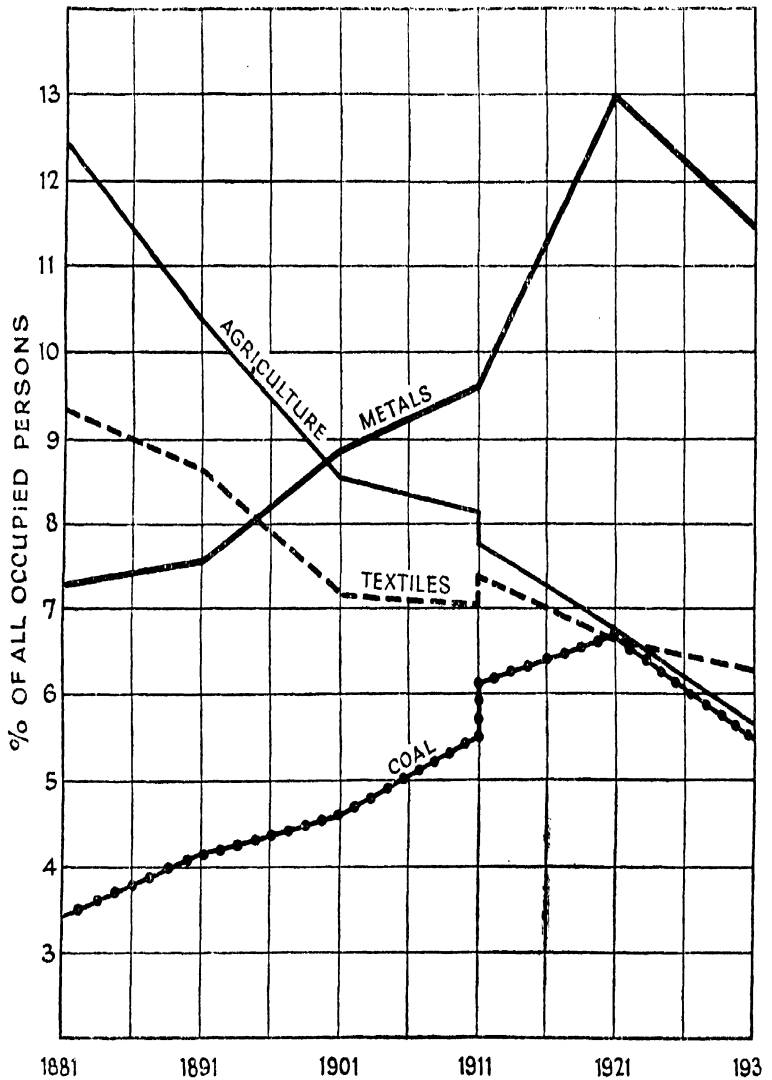
CHAPTER III

PRODUCTION

SO FAR, WE HAVE BEEN discussing the national income in terms of money. We have, however, to consider also of what real things this income consists and how its composition has been changing in recent years. The national income as a whole can be divided broadly into three categories—goods made at home, services rendered at home, and the net receipts of goods and services from abroad, after deducting the value of exports and of services rendered to foreigners. By 'goods made at home' we must here understand the value added at home; for in many cases the goods are made wholly or in part of imported materials, which have to be paid for abroad and clearly form no part of the national income, except under the third heading.

The Measurement of Production

The principal data for measuring the amount of home production of goods are to be found in the Census of Production, which was taken last in 1935. This does not cover Agriculture, Forestry and Fishing, for which separate estimates are available; nor does it include services. It leaves out (*a*) all transport, (*b*) all distributive services, (*c*) all professional services, such as teaching, medicine, and other consultant services, (*d*) financial services, such as banking and insurance, (*e*) domestic and personal services, including hotels, restaurants, theatres, clubs, and so on, as well as domestic work in the home. These excluded groups together account for considerably more than half the national income; and some of them are very difficult to value even in the most approximate way. Colin Clark has estimated that the gross national income in 1935 was about £4,926 millions, including provision for depreciation and renewals, and the net national income £4,530 millions, after deducting this item. Of this gross total, the net output of the industries covered by the Census of Production accounted for only £1,759 millions, or 36 per cent. The net output of agriculture was about £130 millions, bringing the total for production up to £1,889 millions, or about 38½ per cent. The rest of the total is made up of the services of transport and distribution, professional and personal services of every sort, public services



CHANGES IN THE PROPORTIONS OF PERSONS OCCUPIED IN CERTAIN INDUSTRIES AT SUCCESSIVE CENSUSES: GREAT BRITAIN.

provided by national and local government, and the net income from abroad.

The nearest approach that can be made to an estimate of the respective parts played by these various services in the national

DISTRIBUTION OF THE OCCUPIED POPULATION OF GREAT BRITAIN BY INDUSTRIES AND SERVICES, 1931

	Numbers (thousands)			*Percentages of all occupied*		
	Males	*Females*	*Total*	*Males*	*Females*	*Total*
Primary Production						
Fishing	65·4	2·0	67·4	0·4	0·1	0·3
Agriculture and forestry	1,127·5	77·2	1,204·7	7·7	1·2	5·8
Coal-mining	1,188·3	7·1	1,185·4	8·0	0·1	5·6
Other mining and quarrying and by-products	177·8	5·6	183·4	1·2	0·1	0·9
	2,559·0	91·9	2,650·9	17·3	1·5	12·6
Secondary Production						
Metals and chemicals	2,436·5	369·9	2,806·4	16·5	5·9	13·4
Textiles and clothing	961·2	1,396·6	2,357·8	6·5	22·3	11·2
Food, drink and tobacco	452·8	271·6	724·4	3·1	4·4	3·4
Paper and printing	326·4	174·9	501·3	2·2	2·8	2·4
Other manufacturing	450·0	118·4	568·4	3·0	1·9	2·7
Building and contracting	1,130·9	14·7	1,145·6	7·7	0·2	5·4
Public utilities	239·9	7·6	247·5	1·6	0·1	1·2
	5,997·7	2,353·7	8,351·7	40·6	37·6	39·7
Services						
Transport and communication	1,583·5	111·3	1,694·8	10·7	1·8	8·1
Distribution, commerce and finance	2,337·1	1,030·9	3,368·0	15·8	16·5	16·0
Defence and police	314·1	8·4	322·5	2·1	0·1	1·5
Education	135·9	282·4	418·3	0·9	4·5	2·0
Other public services	658·2	153·6	811·8	4·5	2·5	3·9
Other professional services	294·1	233·0	527·1	2·0	3·7	2·5
Entertainment and sport	136·9	70·3	207·2	0·9	1·1	1·0
Laundries and cleaning	40·3	141·1	181·4	0·3	2·3	0·9
Hotels, restaurants, clubs, and boarding houses	290·7	382·7	673·4	2·0	6·1	3·2
Private domestic service	301·8	1,337·9	1,639·7	2·1	21·4	7·8
Other personal services	113·7	62·0	175·7	0·8	0·9	0·8
	6,206·3	3,813·6	10,019·9	42·1	60·9	47·7
Totals	14,763·0	6,259·2	21,022·2	100	100	
Unclassified (omitted above)	148·7	46·6	195·3	—	—	
	14,911·7	6,305·8	21,217·5	—	—	—

income as a whole is to look at the distribution of the occupied population among the various types of employment. Unfortunately, as no Population Census was taken in 1941, we have no official figures for such a break-up later than 1931. At that date, the occupied population, including employers and 'self-employers' as well as employed persons, was distributed among the main industries and services in the way shown in the Table on p. 475.

The Distribution of Man-power

Thus, out of a total occupied population of 21 millions, nearly 48 per cent. were engaged in 1931 in transport, distribution, and other 'service' industries, and only about 52 per cent. in the production of physical goods. This is on the basis of a classification by industries rather than occupations, so that a clerk or a lorry-driver employed by a productive firm—say, a steelworks—is counted as a producer and not as a 'service' worker. The Census gives an alternative classification by occupations, and it is instructive to compare the two.

INDUSTRIAL AND OCCUPATIONAL DISTRIBUTION IN 1931 COMPARED

(*Per cent. of all occupied persons*)

	By industries		*By occupations*	
Production				
Agriculture and fishing	6·1		6·6	
Mining and quarrying	6·5	52·3	5·3	42·6
Manufacturing	39·7		30·7	
Transport				
Transport and communication	8·1		8·7	
Distribution				
Distribution, commerce and finance	16·0		13·1	
Other				
Professional and public services	10·9		5·5	
Clerks and typists	—		7·2	
Personal service	12·7	23·6	13·1	35·6
Unclassified	—		9·8	

Thus, we shall not go far wrong if we say that in 1931 about half the occupied population was engaged in producing goods and the other half in transporting and distributing them or in rendering various kinds of personal, professional, or public service.

These industrial and occupational totals include the unemployed as well as the employed. The figures show not how many people were actually at work in 1931 in the various branches of the national economy, but how many would have

been at work if there had been absolutely full employment. Actually, 1931 was a bad year, and the Census recorded the following formidable numbers out of work in the various industrial groups:

NUMBERS RECORDED AS OUT OF WORK IN THE CENSUS OF 1931

(*Thousands*)

Agriculture and fishing	10·0	Transport and communication	164·2
Mining and quarrying	248·4	Distribution, commerce and finance	235·5
Metal industries	522·2	Public services	103·9
Chemical industries	28·4	Professional services	23·8
Textile industries	254·7	Entertainment and sport	34·1
Clothing and leather industries	72·2	Private domestic service	121·7
Food, drink and tobacco industries	72·8	Hotels, restaurants and clubs	62·4
Paper and printing industries	38·1	Laundries and cleaning	11·6
Woodworking industries	45·3	Other personal services	10·9
Building and contracting industries	197·0	Total, services	768·1
Other manufacturing industries	29·9	*Miscellaneous and unclassified*	123·9
Public utilities	20·4		
Total, production	1,539·4	Total[1]	2,431·4

From this Table we see that, although the labour force was distributed fairly evenly between production and 'service' industries, there were twice as many productive as service workers unemployed. Coal-mining, metals, textiles and building were the groups in which unemployment was most serious and in which the greatest waste of productive capacity was being incurred.

Man-power and Production

The purpose of this analysis has been to give some idea of the real make-up of the British national income as it was before the war and as it might have been if we had been using our productive resources to the full. Between 1931 and 1939 the tendencies which had been in force earlier for the most part continued in operation. The proportion of productive to service workers continued to fall as the numbers in distributive, commercial, and other service occupations increased. By 1939, according to an estimate made

[1] This total compares with 2,515,000 persons recorded in the unemployment insurance figures for April, 1931, as out of work. As the Census covers occupations not covered by insurance, it is obvious that many workers temporarily unemployed were recorded in the Census as in employment.

by Mr. Fraenkel, the proportion of productive workers had fallen from 52·3 of the whole to about 51 per cent., out of an occupied population of 23 millions. Mines and quarries had decreased from 6·5 to about 4·75 per cent. of the total, and manufacturing from 39·7 to about 37·5 per cent.

There is every reason to expect this tendency to continue, unless there are substantial changes in British economic policy. If, however, we decide to plan our productive system in such a way as to promote the general welfare, a different situation may arise. In the first place, we may very well decide that we cannot spare nearly 8 per cent. of our total working population for private domestic service, apart from the further 3 per cent. employed in hotels, clubs, restaurants, and lodging houses. Indeed, if we have full employment and there are alternative jobs available, a large proportion of the 1,640,000 private domestic servants will probably not be available for these occupations, and many who would in other circumstances have entered domestic service will seek more congenial employment. This will occur, even if the conditions of domestic service are drastically improved, as they ought of course to be; for domestic service is unpopular in itself as well as on account of the bad conditions which have hitherto been associated with it. The number of private domestic servants was drastically cut down between 1914 and 1918, though not so much as it has been during the second World War. After 1918 hundreds of thousands of workers were driven back into it, or driven to take it up, by the impossibility of getting other jobs. If we maintain full employment for the future, the same thing will not happen. The number of domestic servants will be governed by the number willing to take up such work and to continue in it despite the existence of alternative openings, and we may reasonably expect a sharp fall.

It may also be doubted whether, under conditions of full employment, we shall for long be prepared to devote 16 per cent. of our available man-power to distribution, commerce and finance. There will perhaps be less incentive to open small shops when regular work is more easily obtainable elsewhere; and, apart from the small shopkeepers, there is room for a considerable fall in the number of shop assistants, vanmen, and other workers employed in shops manned by wage-labour. The number of insured workers in the distributive trades rose by leaps and bounds between the wars. To some extent, this was doubtless due to real demands by customers for improved service, including the delivery of a higher proportion of the goods bought. But, even if high standards of service are wanted, at the cost which they must

entail, it is unquestionable that a rationalisation of large-scale and medium-scale retailing could give at least as good service as was given before the war with a much smaller expenditure of man-power. It could give this, even if, on political grounds, the small shopkeepers were left wholly untouched and if the measures of rationalisation were confined to the larger shops.

On the productive side the decline in the numbers occupied in coal-mining seems certain to continue, as even if production recovers this will be as a result of higher mechanisation, and will not involve an increase in employment. Employment in textiles is also likely to fall further, both because of the factors leading to a permanent decline in cotton exports and because here too the future obviously lies with much more developed forms of mechanisation in all types of textile manufacture. Metal-working, on the other hand, will almost certainly show a long-period tendency to increase still further, though there must of course be, as after the first World War, a considerable scaling down following upon the immense expansion due to the war. Agricultural employment has declined steadily in relative importance at every Census. In this case the tendency may be arrested by the maintenance of home production of foodstuffs at a higher level after the war; but against this factor has to be reckoned the increasing mechanisation of agricultural processes—which is, indeed, a condition of our being able to grow more food without adding to its real cost. Agriculture, even with a considerable expansion of its productive programme, is not likely to absorb an appreciably higher proportion of total man-power than it did before the war.

Where We shall Need More Workers

If standards of living are raised as a result of full employment and a more equitable distribution of purchasing power, the industries and services which will be called on for the most rapid expansion in producing for the home market will probably include the following:

Industries		*Services*	
Building.	Furniture.	Public utilities.	Health.
Boots and shoes.	Food preserving.	Road transport.	Catering.
Other clothing.	Tobacco.	Local government.	Amusement.
Hosiery.	Printing.	Education.	Laundries.
Rayon.	Minor metal trades.		
Rubber.	Vehicle trades.		

All these industries and services, many of which have been greatly cut down during the war, have been looking for additional

workers and are badly in need of an increased and more up-to-date investment in plant, buildings and machinery. The building industry alone will need, if housing and other forms of construction are to be developed on an adequate scale, to increase its labour force by at least a quarter of a million above the numbers employed in 1939. Education is in need of an additional 100,000 workers, and health services of at least 50,000. If Great Britain is to pay for necessary imports with an increased quantity of exports, there will have to be a permanent expansion of employment throughout the industries which contribute to this increase; and of course the demand for increased investment means a higher demand for labour in the industries which produce capital goods.

The Problem of Post-war Investment

This question of investment is of the first importance. As we saw in the previous chapter, the total demand for investment goods in 1938 amounted to about £690 millions, of which £340 millions was for renewals of existing assets. Of the £690 millions, £360 millions was for buildings and £145 millions for public utilities, including roads, bridges, waterworks, power stations and transport equipment, and so on. This left only £185 millions for plant and machinery and all other capital goods; and of this £155 millions was for renewals. New investment, apart from renewals, in plant and machinery was only £20 millions, and in other capital assets £10 millions. Such amounts are out of all relation to what is now needed in connection with a policy of full employment for the re-equipment of British industry. House-building alone needs to absorb more than was being devoted to all forms of capital expenditure, including renewals; and there is of course already a very high and urgent demand for arrears of renewals from all the industries which have been cut down under war conditions, over and above what is needed for expanding the scale of production.

We shall be faced, then, for a considerable period after the war with the need for a high rate of capital accumulation. The gross national income of the post-war period will be subject both to a larger deduction in respect of exports needed to pay for imports, the cost of which can no longer be met out of income from overseas assets, and to an exceptionally high toll for the improvement of our standards of housing and capital equipment. We shall not need to go to the lengths to which the Soviet Union had to go in postponing consumption in order to build up industrial capital; but we shall have to go quite a considerable way. The level of current consumption which we shall be able to afford will be a

long way short of the gross production of which we should be capable under full employment. Of course, this only means *postponing* consumption, nor is there any reason why the postponement should continue for very long. The higher investment, if it is rightly directed to improving industrial efficiency, will very soon begin to yield a higher total income, out of which we can consume more, even after setting aside a larger total amount for further investment. If, however, we scramble at once to increase our consumption at the cost of investing less, we shall both fail to swell our total income for the future and fail to secure sufficient markets for our exports to pay for the imports needed to yield us a satisfactory standard of life. We shall fare no better in the short run, and very much worse in the long run, than we may expect to fare if we follow for some time to come a wisely directed policy of high investment in re-equipping industry on thoroughly up-to-date lines.

Investment and Consumption

Mr. Kaldor, in his calculations appended to Sir William Beveridge's book on *Full Employment in a Free Society*, has reckoned that Great Britain might need after the war a real net investment in capital assets twice as large as the actual investment of 1938—and of course still larger, in terms of money, to the extent to which post-war prices are higher. This would mean, on the assumption of prices up by one-third, a total investment, public and private, of about £1,333 millions, or rather more than one-sixth of what the net national income should be at that level of prices under conditions of full employment. This would leave us enough to maintain consumption at about the pre-war level after allowing for bringing the unemployed up to the same standards as the employed workers. Any advance in consumption beyond this would have to come as a result of more efficient production; and this in turn depends on a policy of high investment.

The Sources of New Capital

The question at once arises, if this great increase in investment is needed, who is to own the new capital goods and to reap the profits accruing from the higher efficiency. We have seen that in 1945 the net money savings of private persons and corporations amounted to £1,480 millions. During the war, most of this money was lent to the Government, which used it for war purposes, partly to meet current expenses and partly in building war factories and other capital assets, some of which will be usable

in the future. This high rate of private saving was, of course, the outcome partly of a patriotic desire to help the war effort, partly of the current shortage of goods and services upon which incomes could be spent, and partly of a desire to save up in view of the uncertainties of the post-war outlook—for the fear of unemployment had been too deeply engrained by experience between the wars to be easily put aside by mere hopes of a new employment policy. But there is nothing impossible in the maintenance of a high tendency to save out of private incomes now that the war is over—if we decide that to be the best method of providing for the accumulation that is needed. Mr. Kaldor has estimated that in 1938, if a situation of full employment had existed, private savings would have amounted to £560 millions on the basis of the existing distribution of incomes and the existing levels of taxation.

But is private saving the best method? Under any system of national economic planning, the Government will know, within fairly narrow limits, at what level total investment needs to be sustained in order both to secure full employment and to bring about the required measures of industrial re-equipment and development. May not the best method be for the Government itself to undertake a substantial part of the capital accumulation which is needed for these purposes, raising the money either by general taxation or by levies upon those industries and services which produce the less necessary supplies? In the Soviet Union, though citizens are as fully free to save out of their incomes and to lend their savings at interest to the Government as they are here, no reliance is put on these acts of voluntary saving to produce the amount of capital that is needed for the national development plan. The Government gets whatever more it needs by so arranging the structure of private incomes and selling prices as to leave it with the resources required for capital expenditure. This can be regarded as a form of indirect taxation levied on industry or as a direct taxation of incomes; for it results in prices being higher and incomes lower than they would be if the whole national income were paid out in wages, salaries, and other forms of current spending power and the Government then borrowed back what it needed for capital expenditure. It is, however, simpler and more correct to regard it as the natural course under a planned economic system; for the real income available for spending on current consumption, and therefore suitable to be paid out to consumers, is only what is left after an adequate level of real saving has been ensured. It is our past reliance on individual thrift as a means of promoting capital accumulation that makes it difficult for us to see this simple point.

Public and Private Enterprise

It would, of course, be quite possible for the Government to make itself responsible both for ensuring a sufficient level of capital accumulation and for undertaking any part of this accumulation, large or small, by developing enterprises under public ownership, and yet to rely on private persons to supply the capital out of personal savings—provided only that, if they failed to save enough, the Government stood ready to step in with measures of its own, for example higher taxation, in order to fill any gap. The Government could finance its own investment policy by borrowing from its citizens, as it was doing from 1939 to 1945 for the purpose of financing the war. This, however, when one comes to think about it, seems an unnecessarily roundabout and expensive procedure. Why should the State pay interest to private persons for saving sums which it could perfectly well have retained without allowing them ever to become part of anyone's income? This method results in the new capital goods becoming in effect private property—for even if they are publicly owned, interest is payable on the sums spent in acquiring them—whereas by the method used in the Soviet Union the greater part of the newly created capital goods becomes public property not subject to any charge. The increased production to which they lead is thus available for distribution among all the citizens in accordance with considerations of general social advantage, and does not become the private property of any class of owners of public bonds.

It may be answered that the one method of capital accumulation is characteristically capitalist, and the other Socialist. This is of course entirely true. As long as we continue to regard it as desirable that property shall belong as much as possible to individuals and as little as possible to the community as a whole we shall no doubt continue to finance capital development by the roundabout method of handing out incomes sufficient to buy the whole current product and then bribing the recipients to invest a part of these incomes instead of spending the whole on current consumption. But much of the plausibility of this process vanishes as soon as it is admitted—as nearly everyone admits to-day—that savings under this system have no tendency to coincide with what is needed either for full employment or for a reasonable plan of national economic development.

The Prospects of Consumption

Let us now come back for a moment to the figures of consumption which were cited on p. 460. We there saw that in 1938

consumers spent in all on private consumption about £4,072 millions. Of this at least three-quarters went on goods, including house-room, and less than a quarter on services, though, as we have seen, nearly half the occupied population was engaged in rendering services and not in making goods. This difference is of course accounted for by the fact that the retail prices of the goods consumers buy include, besides indirect taxes, the costs of transport and distribution and finance. Despite the half-and-half division of the national man-power between production and services, products represent over three-quarters of the national income in its final consumable form, and services less than a quarter. As real incomes rise, this latter fraction will tend to increase. The more we can keep down the costs of such services as goods-transport and distribution, the better, provided that the jobs are efficiently done; for these services are merely means of getting the goods into the consumers' hands. It does not, however, at all follow that we ought to wish to reduce the proportion of resources devoted to those services which make a direct contribution to satisfaction or welfare. Naturally, in these too we want to get the largest possible return for each unit of real cost, and it is no better to spend *wastefully* on education or health or entertainment than on transport or distribution. But whereas distribution is not a good in its own right, but only a means to a good, education, health and entertainment are goods in their own right, and it is a sign of rising standards and advancing culture to spend a larger proportion of the national income upon them.

Food Needs and the Import Problem

In a previous book[1] I have quoted certain estimates of the amounts by which it would have been necessary to increase the consumption of essential foodstuffs in Great Britain in order to bring the whole population up to the standards of nutrition actually enjoyed by the well-to-do. The analysis there given was based on Sir John Orr's division of the people, from the standpoint of nutrition, into six income groups; and the figures were designed to show what would be involved in raising all the lower groups to the standard of a higher group. I repeat the main figures here, together with the data showing how average *per capita* consumption of the foodstuffs altered over the twenty years before the analysis was made. But for one long-run and one short-run factor—our difficulty in finding the means of paying for additional imports and the temporary world shortage of food

[1] *The Condition of Britain*, by G. D. H. and Margaret Cole. 1937.

supplies—there should be no impracticability in taking these estimates as a target to aim at as soon as the immediate post-war dislocations have been overcome.

REQUIRED INCREASES IN FOOD CONSUMPTION COMPARED WITH ACTUAL HISTORICAL TRENDS

	Percentage increases in supply needed to raise all lower income groups to standard of nutrition of		*Actual percentage increases in consumption per head between 1909–13 and 1934*
	(a) *Lower middle class*	(b) *Upper and upper middle class*	
Fruit	53	124	88
Vegetables (except potatoes)	47	87	64
Milk[2]	42	80	?[1]
Eggs	27	55	46
Butter[2]	24	41	57
Meat	18	29	6

Of these requirements, only the first need raise any difficulty about imports; for clearly we can, if we so decide, produce the rest at home, though not without a considerable importation of feeding-stuffs. On fresh fruit imported from abroad we spent, on the average of the years 1936–8, nearly £26 millions, and a doubling of this bill, *plus* whatever must be allowed for higher prices, would obviously be a serious matter. We may have to do with less imported fruit than we should like, and to consume more home-grown fruit instead; but in no other respect need we be held back by the fear of not being able to pay for imports from achieving a satisfactory all-round standard of nutrition for the entire British people. On imported feeding-stuffs we spent, on the average of the same years, nearly £30 millions; but wartime experience shows that we need not increase this part of our bill for imports by nearly the whole of the larger quantities we shall need. We can produce at home more feeding-stuffs, as well as more food, if we will only continue to take the trouble: the question is one of relative cost, and our policy will have to be determined in accordance with the position of the post-war balance of payments. But whether we import most of our feeding-stuffs or produce more of them at home, there is nothing to prevent us on this score from aiming at a thoroughly good standard of nutrition for our entire people.

[1] The home-produced supply of milk rose by 20 per cent. between 1924 and 1934.

[2] These increases would be partly offset by falls in the consumption of condensed milk and margarine. The top income group uses only about half as much margarine, and less than half as much condensed milk, per head, as the rest of the population.

There is no need, on grounds of nutrition, for us to aim at a larger consumption of cereals or potatoes than we had before the war. Few of our people went seriously short of these; and increased consumption by those who did go short will be balanced by reduced consumption on the part of those who are enabled to substitute other and more varied foods. Accordingly, in the case of cereals, the question is simply one of deciding how much to produce at home and how much to import, out of a total quantity that is unlikely to alter greatly as the standards of living change, though it will of course tend to decrease as population falls. As we were spending before the war nearly £58 millions a year on imported cereals, shortage of the means of paying for imports may clearly be a good reason for expanding home production, if this can be done at reasonable cost and without undue disturbance to our exports to the areas from which our supplies of cereals have been mainly drawn. We must, however, take care not to do unnecessary damage to the farmers of Canada and Australia, who depend very greatly on the British market. Similar considerations apply to the home production of butter and cheese; but in these cases the need for a large increase in total supplies makes it easier for us to expand home production without depriving our previous suppliers of their markets.

To these and to many other questions of food production policy there can be at this stage no decisive answer. What Great Britain will have to do depends on factors which are still unsettled and to some extent beyond our control. The more exports we are able to sell, the more imported food we shall be able to buy; and the more we buy the better will export opportunities be, unless other countries deliberately close their markets and aim at greater self-sufficiency, or unless the prices which we charge are too high for other countries to be willing to pay them. We cannot lay down for ourselves a long-term policy of food production until we know both the degree of success achieved by our own measures of industrial improvement in enabling us to supply our exports on more favourable terms and the degree of openness of foreign markets and the pace at which industrialisation in the more backward areas is likely to create an expanding demand for British engineering products.

Fortunately, it is not necessary for us to commit ourselves at this stage to a clearly defined long-term programme of agricultural production. For some time to come, world scarcities of both food and transport will compel us to keep in being much of our wartime policy of agricultural expansion designed to meet a

larger proportion of basic needs out of home-produced supplies. Well before this need is at an end it should be a good deal easier than it can be now to settle what lines we had best pursue.

Consumers' Demand for Industrial Products

It is obviously out of the question to set up for ourselves definite targets of consumers' needs for most industrial products. In the case of foodstuffs, the independent standards laid down by experts in nutrition provide us with a definite aim; but there are no parallel standards for other types of goods. Thus, we can say that most people really need more or better clothes than they were able to afford before the war; but we cannot usefully translate this assertion into an estimate of the number of pairs of boots, suits, shirts, skirts and blouses that people ought to have in order to be adequately clothed. This, however, does not mean that we can say nothing, or that we ought simply to wait and see how many of each of these things, and of other kinds of consumers' goods, are actually demanded at the prices at which these various goods are offered for sale. This is quite the wrong attitude; for evidently the numbers demanded of the various kinds of goods will depend on the prices and on the quality and attractiveness of the goods on offer. It is of the greatest possible importance to offer people a large variety of useful consumers' goods of good quality and attractive appearance at the lowest possible prices; and this we cannot hope to do unless we deliberately plan to get these goods produced in the most economical way. Well-to-do people often speak as if we ought to wish to get away as speedily as possible from all kinds of 'utility' production, such as we have introduced under war conditions in order to economise man-power and materials. It is true enough that we ought to end as soon as possible those forms of *ersatz* production which are based on using relatively unsuitable materials, or on skimping the quantities used, because of wartime scarcities. But we ought to do everything we can to preserve those economies which really cheapen production by increasing the scale of manufacture or specialising particular factories to a narrower range of products. It is simply untrue that standardisation of this sort need result in any narrowing of the consumers' range of choice. The fastidious consumer, who is prepared to pay a high price for a special article, can be unaffected by it; for no one wants to stop production that will gratify his fancy if he is prepared to pay for its satisfaction. For the vast majority of consumers, in respect of the vast majority of their purchases, this issue simply does not arise. They want a good, serviceable article as cheaply as it can be supplied; and a choice

between a dozen carefully considered varieties is quite as effective a choice for them as one between several hundred varieties which are produced, not because they cater for different tastes, but because several hundred independent firms happen to have hit on somewhat different designs. Indeed, in many respects, even apart from price, the consumers can be served better when the number of varieties is reduced; for standardisation makes possible easy replacement of broken or worn-out parts or pieces. In addition, it of course facilitates the production in most cases of an article of better quality at any given price.

The Case for Utility Goods

We must not allow those who argue against standardisation and the production of 'utility' goods to get away with the contention that they are the true upholders of the consumers' freedom. It is no part of the consumers' freedom to discover, when he wishes to replace a few broken tea-cups out of a set, that the design is unobtainable, or, when a part breaks in his gramophone or his vacuum cleaner, that replacements for that model are no longer being made. Yet until we do take to producing 'utility' goods in sufficient, but not more than sufficient variety, this false freedom will be continually the consumers' fate.

One great reason why both producing and trading firms are apt to dislike 'utility' goods is, of course, that, the more standardised production is, the more easily can profiteering be kept in check. Standardisation includes the laying down of standard sale prices, of which the State can secure the observance: whereas it is impracticable to prevent overcharging, or to keep any effective check on the costs of production, as long as an immense variety of entirely unstandardised products is being made. I am not for a moment suggesting that standardisation is appropriate in every field; for there are fields of production in which individuality counts for a great deal, or in which goods can be produced as economically, if not more so, on a small scale as in large, highly mechanised establishments. What I do say is that, until most people are a great deal richer than they are to-day, their interests will be best served by the 'utility' principle in relation to a very wide range of products of everyday use—especially if the acceptance of this principle includes effective price-control at both the manufacturing and the distributive stages.

The obvious fields for a wide development of utility production include house-fittings and furniture and furnishing stuffs; household utensils, crockery, glass, cutlery; electric fittings, wireless sets, gramophones, refrigerators, vacuum cleaners; boots and

shoes, socks and stockings, and other knitwear; overcoats, suits, waterproofs, sportswear; trunks, bags and brief-cases; books. Woolworth and Marks and Spencer, in their several fields, have done something to show how great are the economies that can be achieved by large-scale production animated by intelligent design: the 'Penguins' have given a demonstration of the same principle in the case of books and, in doing so, have brought into existence a new book-buying public. We must aim in future at applying these lessons very much more widely and at destroying every monopoly, based on patent rights or on trade associations, that stands in the way of this development. And we must see to it that war factories which are capable of being turned over to the economical mass-production of consumers' supplies are used for this purpose and are not dismantled lest they compete with 'private enterprise' or bought up cheap and put out of action or diverted to other uses by the monopolists themselves.

Production Between the Wars

The extent of our failure over the inter-war period to make use of our means of producing a larger volume of wealth is truly astonishing. Some allowance must be made for the dislocation of industry during the first World War; but it is generally agreed that by 1924 the pre-war level of production had been regained and the disastrous effects of bad financial and economic policies during the period immediately after the war had to some extent worn off. 1924, in effect, is generally regarded by statisticians as the first 'normal' post-war year. Let us take 1924 as our starting point and compare what actually happened to the British economy with what might have happened if our affairs had been better arranged.

The five years from 1924 to 1929 were commonly regarded at the time as bad years for the British economic system. They included Mr. Churchill's unfortunate return to the gold standard at an exchange level which overvalued the pound in terms of gold and dollars and thus imposed serious handicaps on British export trade. They were years of what seemed high unemployment until our ideas in this respect were altered by the unprecedented severity of the world slump. No one was satisfied at the time with the rate of economic progress, which left a substantial part of our industrial capacity unused. Yet how much better off should we have been in 1939, and how much better prepared to face the demands of war, if even the unsatisfactory rate of advance achieved during these years had been subsequently kept up.

Over the five years from 1924 to 1929 the general index of

British industrial production increased by 12 per cent. despite an actual fall in the textile industries and in coal-mining, which both suffered from the handicaps imposed on exports by the over-valuation of the pound. Many of our leading industries showed a much larger advance, as the accompanying Table shows. The progress was rapid in the cases of motor-cars, then at last being produced in this country to some extent by standardised methods, of rayon, of electricity, and of the non-ferrous metals. There was also a rapid development in general engineering, following upon the severe contraction of the period immediately after the war. Production of chemicals advanced more slowly, but well above the average of all industries.

INDICES OF ACTUAL AND 'POSSIBLE' PRODUCTION IN GREAT BRITAIN FROM 1924

(*Production in 1924=100. The actual figures show the actual course of production after 1924, the 'possible' figures show what production would have been if development had continued up to 1944 at the actual rates of 1924–9.*)

	1924	*1929*	*1934*	*1938*	*1939*	*1944*
A. General Index of Industrial Output						
Actual	100	112	111	129	—	—
'Possible'	100	112	125	—	140	157
B. Group Indices						
Iron and Steel						
Actual	100	114	104	117	—	—
'Possible'	100	114	130	—	148	169
Non-ferrous Metals						
Actual	100	121	150	174	—	—
'Possible'	100	121	146	—	177	214
Engineering and Shipbuilding						
Actual	100	121	111	150	—	—
'Possible'	100	121	146	—	177	214
Chemicals						
Actual	100	116	106	115	—	—
'Possible'	100	116	135	—	154	179
Gas and Electricity						
Actual	100	136	169	232	—	—
'Possible'	100	136	185	—	252	342
Food, Drink and Tobacco						
Actual	100	106	105	127	—	—
'Possible'	100	106	112	—	119	126
Boots, Shoes and Leather						
Actual	100	99	107	107	—	—
'Possible'	100	99	98	—	97	96
Textiles						
Actual	100	99	93	88	—	—
'Possible'	100	99	98	—	97	96

INDICES OF ACTUAL AND 'POSSIBLE' PRODUCTION IN GREAT BRITAIN FROM 1924—*continued*

	1924	*1929*	*1934*	*1938*	*1939*	*1944*
C. Individual Commodities						
Coal						
Actual	100	97	83	85	88	—
'Possible'	100	97	94	—	91	88
Iron Ore						
Actual	100	120	99	108	—	—
'Possible'	100	120	144	—	173	208
Pig Iron						
Actual	100	104	82	93	—	—
'Possible'	100	104	108	—	112	116
Steel						
Actual	100	118	108	127	—	—
'Possible'	100	118	139	—	164	194
Copper						
Actual	100	104	53	33	—	—
'Possible'	100	104	108	—	112	116
Lead						
Actual	100	200	168	185	—	—
'Possible'	100	200	400	—	800	1,600
Tin						
Actual	100	154	71	101	104	—
'Possible'	100	154	237	—	365	562
Aluminium						
Actual	100	100	159	289	309	—
'Possible'	100	100	100	100	100	100
Cement						
Actual	100	147	175	243	—	—
'Possible'	100	147	216	—	317	466
Sulphate of Ammonia						
Actual	100	208	111	105 (1936)	—	—
'Possible'	100	208	433	—	900	1,873
Superphosphates						
Actual	100	112	115	113 (1937)	—	—
'Possible'	100	112	125	—	140	157
Basic Slag						
Actual	*100*	*105*	*86*	*152*	—	—
'Possible'	100	105	110	—	115	121
Motor cars						
Aotual	100	182	268	337	—	—
'Possible'	100	182	333	—	606	1,103
Artificial Silk						
Actual	100	212	359	431	485	—
'Possible'	100	212	450	—	954	2,023
Electricity						
Actual	100	151	195	239	—	—
'Possible'	100	151	228	—	344	519

Actual and Possible Production

Let us see what would have happened if these five years of moderate progress—much less rapid than was well within the technical possibilities of the case—had been followed, not by the greatest slump in the history of capitalism, but by a maintenance up to the present of the same modest rate of advance. In the first place the general index of industrial production, which stood in 1938 at 129, would have stood at 137 and would have risen by 1944 to 157—in other words, there would have been an advance of 57 per cent. in total industrial production over a period of twenty years, despite the fact that the estimate allows for a continuance of the troubles which beset the export trades between 1924 and 1929. Secondly, the output of iron and steel manufactures, which had increased between 1924 and 1938 by only 17 per cent., would have increased by 44 per cent., and that of the engineering and shipbuilding industries by 71 per cent. instead of 50 per cent. Output of chemical goods would have risen by 50 per cent. instead of 15 per cent., and, to take a group of industries which were declining between 1924 and 1929, the output of textile goods would have fallen by only 3 per cent. instead of 12 per cent. As against this, the output of non-ferrous metals actually rose faster between 1929 and 1938 than during the earlier period, and so did that of the food, drink and tobacco trades; while the output of boots and leather, which had been falling between 1924 and 1929, increased in the 'thirties, though not rapidly. The production of gas and electricity also rose rapidly in the 'thirties, largely owing to the operation of the 'grid' and to a considerable development of the industrial uses of gas; and in this case the rate of advance was about the same before and after 1929.

The general picture presented by these figures is one of lamentable slowing down of development in the iron and steel, engineering, and chemical industries, and of an accentuated fall in textile production. The existence throughout of a large pool of unemployed labour makes it clear that there were no technical obstacles in the way of a continuance of development over industry as a whole as rapid as that which was actually achieved between 1924 and 1929. Indeed, this is an obvious understatement; for the general advance made in those years was slowed down by the conditions hampering exports as well as by the check to wage-movements which ensued on the defeat of the General Strike of 1926. This latter factor was responsible for the slow advance in the food trades and in other industries producing for the consumers' market, and both factors of course lowered the average

rate of advance over industry as a whole. Technically, production could have increased between 1929 and 1938, not merely as fast as it had been increasing up to 1929, but a great deal faster. The obstacle was not to be discovered in any shortage of man-power or of technical ability to expand, but in the financial and political factors restricting production. Technically speaking, we could at least have added at any time 10 per cent. to total industrial output by calling unemployed resources into use, and then have increased production as fast on the basis of this larger achievement as it had actually been increasing up to 1929.

On this basis, the general index of industrial production would have shown the following results, assuming that production had been raised by 10 per cent. in 1929:

1924	*1929*	*1934*	*1939*	*1944*
100	125	138	154	172

In other words, we could have raised total industrial production by over 50 per cent., instead of 29 per cent., between 1924 and 1938. Even this is, I am sure, still a great understatement; for it allows for no greater technical progress than was actually being achieved between 1924 and 1929. Nor of course does the estimate for 1944 make any allowance for war conditions.

Why Production Fell Short

It is, indeed, too plain to need any elaborate demonstration that, during the ten years before the present war, we were guilty of a gross misuse of our productive resources. This was due partly to the refusal of Governments to accept any responsibility for maintaining the level of employment. But it was also due in part to the defeatist spirit which characterised the British capitalist system during this period, and to the toleration—nay, in many cases, the positive encouragement—given to restrictive combinations, which made it their object not to expand production in accordance with the technical possibilities, but to maintain prices at the cost of imposing artificial scarcity. These monopolists, who established their empire over an ever-increasing part of the productive system, no doubt told themselves, as well as the world, that they were only regulating output within the limits set by the market; but in fact they learnt during the years of depression the art of making profits in bad times by charging much for few goods, and, when the worst of the slump was over, it suited them better to go on with this policy than to risk the uncertainties of trying to cut costs by expanding the scale of production, and so reach a wider market. They did not produce less than the market was ready to absorb, at the prices they charged: they did produce much less

than would have been bought at prices remunerative to the sellers if all possible efforts had been made to cut out unnecessary charges and to lower the costs of production and distribution. Great Britain was honeycombed with combines and trade associations regulating output, factory prices, and selling margins at every stage of the economic process; and the inevitable result was that the consumers found goods scarce and dear.

This would have been much more obvious than it was in fact had there not been, after 1929, an extraordinarily sharp fall in the prices of the imported materials of which British manufactures are largely made. This fall concealed the extent to which prices were being held up by monopolies and by inefficiency in the subsequent stages of production, and served as an *alibi* for high-cost producers who were unwilling to have their inefficiencies exposed. A low level of demand was the necessary outcome, even though the fall in the cost of imported food released some purchasing power for consumers to spend on other goods or services.

We have thus a picture in Great Britain between the wars of waste, inefficiency, and deliberate restriction of output over a wide range of industries, and of rapid progress in far too few to redress the balance. We have, moreover, the spectacle of Governments encouraging these tendencies by the grant of monopoly powers in some cases—e.g. coal—and in others by the encouragement of restrictive combination—e.g. shipbuilding, cotton. We have an entire refusal to take any action to curb the power of monopolistic price-rings and trade associations, however extortionate their policies, and a bland acquiescence in the worsening of Great Britain's position in world markets and in the prevalence of unemployment generally and the decay of the distressed areas in particular. During the war, luckily, the problems of production were mainly tackled in a different spirit, or we should have gone down to inevitable defeat. The question that faces us now is which of the two spirits is to be uppermost in the handling of after-war issues.

DISTRIBUTION OF THE OCCUPIED POPULATION OF GREAT BRITAIN, 1931, BY INDUSTRIAL GROUPS

(*Thousands*)

	In work		*Out of work*		*Total*		
	Males	*Females*	*Males*	*Females*	*Males*	*Females*	*Total*
Fishing	55·7	1·7	9·7	0·3	65·4	2·0	67·4
Agriculture and forestry	1,065·7	74·3	61·8	2·9	1,127·5	77·2	1,204·7
Coal-mining	971·9	6·1	216·4	1·0	1,188·3	7·1	1,185·4
Other mining and quarrying, including treatment of products	147·2	5·2	30·6	0·4	177·8	5·6	183·4
Total, mines and quarries	1,119·1	11·3	247·0	1·4	1,366·1	12·7	1,378·8
Total, primary production	2,240·5	87·3	318·5	4·6	2,559·0	91·9	2,650·9
Metals							
Iron and steel	152·2	4·3	54·4	0·4	206·6	4·7	211·3
Foundries	229·4	22·0	59·5	4·3	288·9	26·3	315·2
General engineering	407·1	39·1	100·2	4·1	507·3	43·2	550·5
Electrical manufacture	182·9	62·4	28·1	7·2	211·1	69·6	280·8
Vehicle trades	308·6	37·2	54·5	4·9	363·1	42·1	405·2
Shipbuilding and marine engineering	191·7	4·2	127·2	0·6	318·9	4·8	323·7
Other metal trades	295·2	105·6	61·1	16·3	356·3	121·9	478·2
Total, metal trades	1,767·1	275·0	485·0	37·2	2,252·1	312·2	2,564·3
Chemicals							
Chemical and explosives trades	81·5	28·2	15·7	2·0	97·2	30·2	127·4
Oil trades	49·1	13·9	6·0	1·1	55·1	15·0	70·1
Other chemical, etc., trades	29·2	11·8	2·9	0·7	32·2	12·5	44·6
Total, chemical trades, etc.	159·8	53·9	24·6	3·8	184·4	57·7	242·1
Textiles							
Cotton	167·4	275·9	50·4	99·8	217·8	375·7	593·5
Woollen and worsted	96·2	125·0	13·0	16·1	109·2	141·1	250·3
Textile bleaching and dyeing	78·1	24·1	14·0	4·7	92·1	28·8	120·9
Hosiery	30·0	92·0	3·0	10·1	33·0	102·1	135·1
Silk and rayon	26·2	34·0	6·6	5·9	32·8	39·9	72·7
Flax, jute and hemp	18·7	37·0	5·3	11·8	24·0	48·8	72·8
Other textile trades	43·4	68·0	5·6	8·1	49·0	76·1	125·1
Total textile trades	460·2	656·2	98·0	156·7	558·2	812·9	1,371·1

DISTRIBUTION OF THE OCCUPIED POPULATION OF GREAT BRITAIN, 1931, BY INDUSTRIAL GROUPS—*continued*

(*Thousands*)

	In work		*Out of work*		*Total*		
	Males	*Females*	*Males*	*Females*	*Males*	*Females*	*Total*
Clothing and Leather							
Leather and skins	54·9	35·3	8·5	3·6	63·4	38·9	102·3
Boots and shoes	140·8	55·3	15·5	3·4	156·3	58·7	215·0
Other clothing trades	167·9	460·3	15·4	25·8	183·3	486·1	669·4
Total, clothing and leather trades	363·6	550·9	39·4	32·8	403·0	583·7	986·7
Food, Drink and Tobacco							
Food trades	290·3	193·8	34·8	20·7	325·1	214·5	539·6
Drink trades	97·0	21·1	10·8	2·8	107·8	23·9	131·7
Tobacco trades	18·5	30·9	1·4	2·3	19·9	33·2	53·1
Total, food, drink and tobacco trades	405·8	245·8	47·0	25·8	452·8	271·6	724·4
Woodworking							
Furniture trades	131·7	24·8	22·0	2·6	153·7	27·4	181·1
Other woodworking trades	191·1	8·1	19·8	0·9	138·9	9·0	147·9
Paper and Printing							
Paper-making	42·9	14·4	3·8	1·1	46·7	15·5	62·2
Stationery trades	30·8	52·9	2·5	4·4	33·3	57·3	90·6
Photographic trades	9·9	8·6	1·2	1·0	11·1	9·6	20·7
Printing and binding trades	217·9	85·8	17·4	6·7	235·3	92·5	327·8
Total, paper and printing trades	301·5	161·7	24·9	13·2	326·4	174·9	501·3
Building and Contracting							
Building and contracting trades	934·8	13·8	196·1	0·9	1,130·9	14·7	1,145·6
Miscellaneous Manufactures							
Rubber trades	35·4	20·3	7·0	2·9	42·4	23·2	65·6
Musical instrument trades	22·1	5·9	5·0	0·8	27·1	6·7	33·8
Other manufacturing trades	78·4	47·4	9·5	4·7	87·9	52·1	140·0
Total, miscellaneous manufacturing trades	135·9	73·6	21·5	8·4	157·4	82·0	239·4
Total, manufactures and construction	4,619·7	2,009·9	953·7	278·5	5,573·4	2,288·4	7,861·8

DISTRIBUTION OF THE OCCUPIED POPULATION OF GREAT BRITAIN, 1931, BY INDUSTRIAL GROUPS—*continued*

(*Thousands*)

	In work		*Out of work*		*Total*		
	Males	*Females*	*Males*	*Females*	*Males*	*Females*	*Total*
Public Utilities							
Gas	114·4	3·7	8·9	0·1	123·3	3·8	127·1
Electricity	76·6	3·1	7·9	0·1	84·5	3·2	87·7
Water	28·7	0·6	3·4	—	32·1	0·6	32·7
Total, public utilities	219·7	7·4	20·2	0·2	239·9	7·6	247·5
Transport							
Railways	522·2	16·0	20·7	0·6	542·9	16·6	559·5
Road transport	448·5	18·7	47·1	1·3	495·6	20·0	515·6
Water transport	146·6	8·1	61·0	1·0	207·6	9·1	216·7
Docks and harbours	119·2	2·1	22·4	0·1	141·6	2·2	143·8
Air transport	1·2	0·2	0·2	—	1·4	0·2	1·6
Storage	10·0	2·1	2·0	0·2	12·0	2·3	14·3
Other transport	12·1	0·8	1·2	—	13·3	0·8	14·1
Total, transport	1,259·8	48·0	154·6	3·2	1,414·4	51·2	1,465·6
Commerce and Finance							
Commerce and finance	2,163·7	968·8	173·4	62·1	2,337·1	1,030·9	3,368·0
Public Services							
Defence	239·7	6·3	5·3	0·3	245·0	6·6	251·6
Post Office	163·6	59·2	5·5	0·9	169·1	60·1	229·2
Other Government departments	97·8	28·5	4·1	0·7	101·9	29·2	131·1
Police	68·7	1·8	0·4	—	69·1	1·8	70·9
Education, public	85·6	188·3	1·4	1·9	87·0	190·2	277·2
Other local public services	470·2	120·7	86·1	3·7	556·3	124·4	680·7
Total, Public Services	1,125·6	404·8	102·8	7·5	1,228·4	412·3	1,640·7
Professions							
Religion	56·8	24·8	0·9	—	57·7	24·8	82·5
Law	53·6	23·6	1·4	0·6	55·0	24·2	79·2
Medicine and dentistry (private)	72·6	139·7	2·7	7·4	75·3	147·1	222·4
Education (private)	47·2	89·3	1·7	2·9	48·9	92·2	141·1
Architecture	12·4	1·9	0·5	0·1	12·9	2·0	14·9
Engineering and surveying	12·8	2·1	0·7	0·1	13·5	2·2	15·7
Accountancy	39·5	9·5	1·0	0·2	40·5	9·7	50·2
Other professions	37·8	21·8	2·4	1·2	40·2	23·0	63·2
Total, professions	332·7	312·7	11·3	12·5	344·0	325·2	669·2

DISTRIBUTION OF THE OCCUPIED POPULATION OF GREAT BRITAIN 1931, BY INDUSTRIAL GROUPS—*continued*

(*Thousands*)

	In work		*Out of work*		*Total*		
	Males	*Females*	*Males*	*Females*	*Males*	*Females*	*Total*
Entertainment							
Entertainment and sport . . .	112·9	60·2	24·0	10·1	136·9	70·3	207·2
Personal Service							
Private domestic service	280·0	1,243·0	21·8	99·9	301·8	1,337·9	1,639·7
Hotels and boarding houses . . .	169·8	217·6	21·8	15·5	191·6	233·1	424·7
Restaurants and clubs .	89·4	134·2	9·7	15·4	99·1	149·6	248·7
Laundries and cleaning	37·1	132·7	3·2	8·4	40·3	141·1	181·4
Other personal services	105·9	58·9	7·8	3·1	113·7	62·0	175·7
Total, personal services, etc. . .	682·2	1,786·4	64·3	142·3	746·5	1,923·7	2,670·2
Others							
Miscellaneous and unstated . . .	52·7	18·7	96·0	27·9	148·7	46·6	195·3

CHAPTER IV

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

IN THE DOCUMENT WHICH was submitted to the Americans in connection with the negotiations for a loan to Great Britain, it was estimated that "the increase in the volume of exports over the pre-war level which will be necessary to pay for the pre-war volume of imports, after allowing for the decline in other sources of external earnings, is of the order of 50 per cent." This estimate, it was stated, made no allowance for the need to supply an increased population or for any improvement in the standard of living or in the volume of employment, such as to call for a larger volume of imports. Nor did it include any provision for repayment of wartime overseas debts, or for the maintenance of armies of occupation abroad. The document just quoted reached the conclusion that after allowance for other factors, such as these, the need might be for "a volume of exports nearer 75 per cent. than 50 per cent. in excess of the pre-war level."

The British Balance of Payments Before the War

Let us try to see on what these estimates, which have inspired the 'export drive' that was started as soon as the fighting ended, were based, and, as far as we can, what are the prospects of meeting the need.

In 1938 the British balance of payments was made up approximately as follows:

THE BRITISH BALANCE OF PAYMENTS, 1938

(*£ millions*)

Imports		*Means of payment*	
Net imports of goods (gross imports *less* re-exports)	858	Exports of British goods (*excluding* re-exports)	470
Net Government expenditure overseas	13	Net shipping income	100
		Net income from overseas investments	200
		Other net receipts (financial earnings, tourists, etc.)	25
	871		805
		Deficit	66
			499

Thus, in the year before the outbreak of war, Great Britain's exports fell short of paying for imports by £388 millions, and even after allowing for shipping earnings by £288 millions. Most of this deficit was met out of the £200 millions paid as dividends and interest on overseas investments belonging to British citizens, and a small part out of other overseas earnings, such as those of our finance houses and insurance companies and the small surplus of receipts from tourists. The total of £225 is *net*, after allowance for dividends and interest on British capital owned by foreigners, and for other items on the debit side. But even after using up all these earnings we were still £66 millions short of the sum needed to pay for imports and to meet the small account for net British Government spending overseas—mainly in the colonial empire. This deficit had to be met either by exporting gold from our stock, or by repatriating capital previously invested abroad, or by allowing foreigners to run up sterling credits in London. A considerable part of it was actually met by receiving back instalments due on loans made to India and to other countries, and not reinvesting these sums overseas.

In 1938 the position was a little affected by special imports brought in for the purpose of increasing our stocks of food and materials in view of the possibility of war. But this was done only on a very small scale. On the average of the three pre-war years 1936–8 there was an annual deficit of over £40 millions on the current balance of payments; and most of this £120 millions was met by the repatriation of capital from abroad.

THE ESTIMATED AVERAGE BRITISH BALANCE OF PAYMENTS, 1936–8

(*£ millions*)

Net imports of goods	866	Net British exports	477
Net Government payments overseas	7	Net export of silver	1
		Net shipping income	105
		Net income from finance and insurance	37
		Net income from overseas investments	203
		Net income from other sources	7
	873		830
		Deficit	43

With total overseas investments valued at upwards of £4,000 millions, there was nothing immediately alarming about a deficit of this size, taken by itself. Great Britain could have gone on for ten years at this rate, and would have used up over the whole

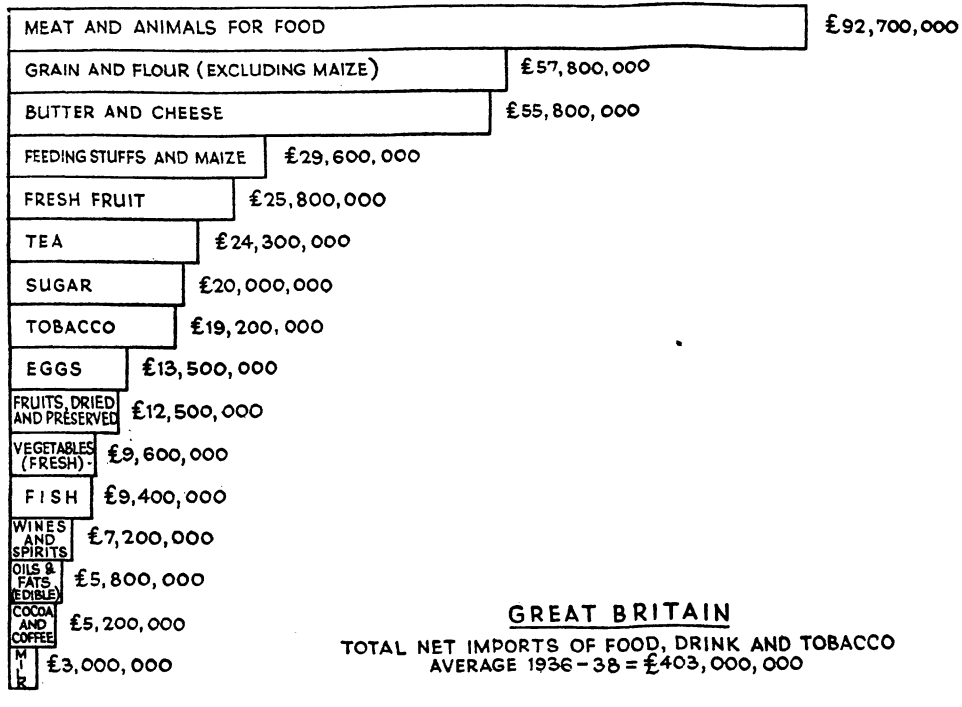
period only about a tenth of its existing overseas investments. Still, the position was not satisfactory—the more so because both any increase in standards of living and the adoption of a policy of full employment were bound to call for considerable additional imports, without necessarily increasing the sales of British goods abroad. Even as matters stood before the war, British exports were doing not at all well in world markets, and there was a strong case for taking action to increase their volume.

How the Position has Changed since 1939

The war has radically altered the entire situation. By June, 1945, we had sold £1,118 millions of our overseas capital holdings. Our gold and dollar reserves had shrunk from £864 millions in 1938 to £453 millions; and much of this reduced total was in effect held on trust for empire countries which shared in the 'dollar pool.' We had incurred £2,795 millions of additional sterling debts, over and above the £760 millions already owing in 1938, mainly to countries which held their currency reserves largely in sterling. Our income from overseas investments had fallen to less than £100 millions, not allowing for the interest on these sterling debts. Our total merchant fleet, including vessels on war service, had fallen from 22 million deadweight tons to less than 16 millions, as a result of war losses only in part offset by new building. It looked as if the accumulated sterling debts, if they had to be met in full, would about wipe off the value of the remaining overseas investments, and as if shipping earnings, after making allowance for price-changes, would for some time be considerably below the pre-war level in purchasing power over imports. Accordingly, if Great Britain were to make both ends meet, most of the cost of post-war imports would have to be met out of the proceeds of export trade. As this clearly could not be done at once, even if it could be done at all, it had to be contemplated that further debts would be incurred after June, 1945. It was for the purpose of meeting these further deficits that a loan from the United States and also a further loan from Canada were sought; and of course the acceptance of these loans means that still more exports will be needed in future in order to pay them back.

British Imports

Great Britain's pre-war imports consisted for the most part not of manufactured goods but of foodstuffs and raw materials; and of the manufactured goods imported a high proportion consisted of semi-manufactures for further working up in this country—in


MEAT AND ANIMALS FOR FOOD
£92,700,000
GRAIN AND FLOUR (EXCLUDING MAIZE)
£57,800,000
BUTTER AND CHEESE
£55,800,000
FEEDING STUFFS AND MAIZE
£29,600,000
FRESH FRUIT
£25,800,000
TEA
£24,300,000
SUGAR
£20,000,000
TOBACCO
£19,200,000
EGGS
£13,500,000
FRUITS, DRIED AND PRESERVED
£12,500,000
VEGETABLES (FRESH)
£9,600,000
FISH
£9,400,000
WINES AND SPIRITS
£7,200,000
OILS & FATS (EDIBLE)
£5,800,000
COCOA AND COFFEE
£5,200,000
MILK
£3,000,000
GREAT BRITAIN
TOTAL NET IMPORTS OF FOOD, DRINK AND TOBACCO
AVERAGE 1936-38 = £403,000,000

some cases with a view to export—or of specialised machinery not made in Great Britain. On the average of the years 1936–8, nearly £403 millions out of the total net imports of £866 millions consisted of foodstuffs, drink and tobacco, nearly £237 millions of raw materials, and only £221½ millions of manufactured and semi-manufactured goods. These foodstuffs and materials, and also most of the manufactures, were needed in order to sustain the British standard of life; and by 1946 more of them were needed, because the population had increased. Any policy of improved nutrition would be bound to call for some additional imports; and so would any rise in real wages or social insurance benefits, or any increase in real incomes due to fuller employment.

The situation will no doubt be affected if we continue to grow a considerably larger proportion of our food supply at home. I set out in the Chart opposite the actual bill which we incurred on the average of the years 1936–8 for imported food, fodder, drink and tobacco. It will be seen that much the largest single item was meat, with grain and flour a long way behind, butter and cheese costing nearly as much as grain and flour, and feeding-stuffs coming next. Before the war Great Britain produced at home about one-fifth of its supply of wheat and between 40 and 45 per cent. of its supplies of meat of various kinds. But this latter proportion was maintained only with the aid of large imports of fodder, which also contributed to the home production of milk. Of our liquid milk, butter and cheese, taken together, we produced roughly one-third, of our sugar about one-quarter. Only in potatoes did we approach self-sufficiency.

During the war years the position was of course quite abnormal. In normal times, import policy is settled mainly by considerations of cost, including cost of transport, on the assumption that there will be plenty of shipping available to carry whatever goods are wanted from overseas. Under war conditions, however, the supply of vessels was always short, and grew shorter as German sinkings reduced the size of the available merchant fleet. It was therefore indispensable to adopt policies which would make the smallest practicable call on shipping space. This meant both cutting down bulky cargoes and substituting, wherever possible, shorter for longer voyages in order to get more work out of each vessel. Grain and fodder are both bulky; and accordingly more wheat had to be grown at home, almost regardless of cost, and maize had to be almost dispensed with as a feeding-stuff, whereas home crops of fodder—root crops—had to be increased. The increase of grain-growing meant, in a country in which there was little uncultivated land to be brought into use, a decline in the acreage of pasture

BRITISH FOOD PRODUCTION AND IMPORTS

(*Thousands of tons, except where otherwise stated*)

	Production			*Imports*			
	1939	*1944*	*1945*	*Average, 1936–8*	*1939*	*1944*	*1945*
Wheat	1,645	3,138	2,176	4,988	5,304	2,824	3,550
Flour	—	—	—	410	367	792	542
Barley	892	1,752	2,108	938	686	—	104
Rice	—	—	—	120	143	42	25
Potatoes	5,218	9,096	9,791	—	—	—	—
Sugar	489	390	447	2,303	2,111	1,154	1,097
[Sugar-beet	3,529	3,267	3,886	—	—	—	—]
Oats	2,003	2,953	3,245	—	—	—	—
Maize	—	—	—	3,376	2,320	118	510
Fodder crops	14,279	17,913	18,991	—	—	—	—
Hay	7,790	5,690	7,192	—	—	—	—
Fruit	824	666	445	—	—	—	—
Oranges	—	—	—	546	563	166	308
Dried fruit	—	—	—	154	179	212	107
Meat	1,316	879	926	1,475	1,422	1,542	1,046
Fish	785	328	489	158	182	271	268
Poultry,[1] millions	74·4	55·1	62·1	—	—	—	—
Eggs in shell	—	—	—	176	196	23	48
Dried egg	—	—	—	1	1	80	35
Milk[2]	1,300	1,378	1,423	97[3]	85[3]	176[3]	95[3]
Butter	—	—	—	478	437	154	190
Cheese	—	—	—	143	143	252	191
Margarine	223	400	401	—	—	—	—
Cooking fat	130	31	83	—	—	—	—
Lard	—	—	—	73	79	190	91
Oilseeds and nuts	—	—	—	1,482	1,536	1,460	1,044
Vegetable oils	—	—	—	218	262	202	154
Fish oils	—	—	—	194	265	42	62
Tea	—	—	—	222	184	193	178
Coffee	—	—	—	20	30	42	48
Cocoa	—	—	—	113	128	145	95
Jam and marmalade	220	303	272	—	—	—	—
Sugar confectionery	482	262	238	—	—	—	—
Beer[4]	25·6	31·4	32·6	—	—	—	—
Spirits[5]	25·9	2·2	15·1	—	—	—	—

land; and as it was regarded as vital to maintain and indeed to increase the supply of milk, this made unavoidable a fall in the home production of meat.

Imports and Production in Wartime

The broad story of British food production and food imports under war conditions is told in the Table above. It is on the whole a story of remarkably successful adaptation in face of a serious

[1] Number of poultry on agricultural holdings.
[2] Million gallons.
[3] Thousand tons, milk condensed and dried.
[4] Million bulk barrels.
[5] Million proof gallons.

shortage of man-power on the land. But it was, and was bound to be, grossly uneconomical, in the sense that it involved growing at home things that could have been procured much more cheaply from abroad if there had been ships to carry them, and buying from abroad expensive but less bulky goods that could have been produced more economically at home, e.g. with the aid of imported fodder. The consequence was that increasingly heavy food subsidies had to be granted in order to give the farmers adequate incentives and rewards without raising the cost of living. Such a policy was fully justifiable in time of war, and remains justifiable as long as the world shortage of basic foodstuffs continues; but it is obviously not the right policy for the long-run future of British agriculture. An attempt was indeed made to modify it in 1945, as soon as the war ended. It was not then appreciated that the world would have to face a serious post-war shortage of basic food supplies: when that was tardily recognised, the wartime policy of high cereal production had to be hurriedly reinstated, much to the annoyance of farmers, who had been replanning their output on the assumption of a return to conditions more like those of the pre-war years.

The continuing food shortage has rendered it impracticable to lay down any long-term plans for British agriculture. It is, however, clear that it will be uneconomic in the long run to maintain the high wartime levels of cereal production, and that it will be necessary to concentrate more on developing an increased output of the more expensive foodstuffs. Milk was already before the war the most valuable item in British farm output; and there is obviously still room, in the interests of good nutrition, for a large further expansion in the sales of liquid milk. Meat production, including that of bacon, will clearly need to be brought up to and a long way beyond the pre-war levels; and there is need for a great expansion in the output of fresh vegetables and of poultry farm products. These increases are required in order to improve the general standards of nutrition, and to maintain with greater variety of diet the improved distribution of food that was secured during the war. They will accordingly not lead to any substantial fall in the demand for food imports; and it would be most unwise to budget for any less to be spent on these than before the war—indeed, it is necessary to budget for enough to allow for the full rise in the prices that will have to be paid.

British Wartime Consumption

The story of British consumption in wartime is told in the Table on page 507, except that the total figures give no indication of the

better distribution brought about by rationing and by less uneven division of spendable income. The figures make clear the large increases that are needed, as soon as the supplies can be made available, in meat, fruit, sugar, butter, tea, and a number of other foods, most of which will have to be imported, either because they cannot be grown here or because considerably more will be needed than there is any prospect of supplying from home sources at a reasonable cost.

British Raw Material Imports

If the British bill for imported foodstuffs cannot easily be decreased, still less can the bill for imported materials. Great Britain depends on importation for all its cotton, silk, hemp, jute, tobacco, rubber, tea, copper, and many other essential non-ferrous metals; for nearly all its timber, wood-pulp, oil and flax; for most of its hides and leather, wool, paper, and lead; and for a large proportion of its iron ore. Coal is the only raw material of the first importance for industry of which resources are adequate; and it is being found difficult to produce enough coal to meet the needs of the home market—let alone to restore exports to a satisfactory level. Such timber resources as there were have been ruthlessly denuded under stress of war, and there can be no recovery for more than a generation, even if the most active policy of reafforestation is pursued. We have used up, in more than a century of intense industrial activity, a high proportion of our natural resources; and even if great progress is made in the development of substitute materials, Great Britain will need to import most of the raw ingredients of which these materials will be made.

On the average of the years 1936–8, net imports of raw materials into Great Britain cost about £237 millions, not including £19 millions for tobacco. Of this total, textile materials cost £86 millions, timber and wood-pulp for paper nearly £64 millions, raw metals £30 millions, seeds and nuts another £30 millions, rubber nearly £9 millions, and hides and skins £8½ millions. To these totals must be added a considerable sum for semi-manufactures which cannot easily be produced at home (and could in any case be produced only from additional imported materials). A high proportion of the total imports of manufactures, which averaged £221 millions, consisted of such goods; for imports of finished manufactures had been cut down drastically by the British tariff of 1932.

Exports from Great Britain are made up largely of imported materials. Indeed, the import content of British exports is said to average about 30 per cent. of the value when they are made.

BRITISH FOOD CONSUMPTION, 1934–46

(Weekly averages. Thousands of tons, except where otherwise stated)

	Average, 1934–8	*1940*	*1941*	*1942*	*1943*	*1944*	*1945*	*October, 1946*
Flour	78·7	86·5	97·8	93·4	94·0	98·0	99·1	93·2
Barley (food and brewing)	15·8	15·8	16·8	15·7	23·0	17·9	20·9	16·0
Rice	1·8	3·3	2·7	1·6	1·4	1·5	0·5	0·2
Potatoes (for food)	58·6	60·3	69·5	83·8	97·3	112·4	106·4	117·6
Sugar	40·6	30·5	27·9	28·4	28·7	31·6	30·7	36·7
Syrup and treacle	1·8	1·4	1·5	1·7	1·8	2·1	2·1	2·0
Oatmeal and flakes	2·2	—	3·2	4·0	4·8	4·3	4·2	3·8
Other breakfast cereals	—	—	0·9	1·0	0·8	0·9	0·9	1·1
Biscuits	—	—	—	6·8	5·1	5·2	5·0	3·8
Maize	65·3	39·2	15·6	3·5	2·3	2·2	7·8	2·7
Canned and dried vegetables	(3·4)[1]	(2·1)[1]	6·2	7·4	6·3	7·0	7·7	8·0
Dried fruit	3·3	3·0	3·3	3·7	2·8	4·3	3·9	5·2
Meat, fresh and frozen	40·5	41·2	33·1	32·2	31·5	35·0	32·7	36·7
Meat, canned	1·3	1·1	1·6	5·0	5·6	5·9	7·2	6·0
Meat, bacon and ham	10·4	8·5	8·0	7·8	7·6	9·8	7·0	6·2
Fish, fresh and frozen, filleted	8·8	4·6	4·6	5·3	5·6	6·3	8·0	11·0
Fish, canned	1·6	2·3	1·7	1·6	1·5	1·8	2·3	0·6
Eggs in shell	8·6	7·7	6·6	4·9	3·9	3·9	4·8	3·7
Eggs, dried	0·03	0·05	0·06	0·77	1·07	1·14	1·56	0·72
Milk, liquid, million gallons[2]	72·0[3]	78·1	88·6	92·9	97·4	100·4	103·6	106·0
Milk used in manufacture[2]	36·3[3]	24·2	13·3	12·9	14·6	14·4	15·0	9·5
Milk, condensed and powder	5·6	4·9	4·0	5·5	6·0	5·4	5·4	6·8
Butter	9·6	5·6	3·9	3·2	3·2	3·1	3·5	3·9
Cheese	3·6	3·6	3·6	5·7	4·9	4·5	4·5	3·8
Margarine	3·5	6·6	7·7	7·6	7·4	7·9	8·1	7·4
Lard and cooking fat	3·8	3·7	4·0	4·8	4·8	4·9	4·5	3·4
Tea	4·4	4·1	3·5	3·5	3·1	3·2	3·7	4·4
Coffee	0·4	0·5	0·5	0·5	0·6	0·8	0·9	0·8
Cocoa beans	2·0	2·7	2·3	2·5	2·2	3·0	2·4	3·9
Jam and marmalade	4·1	4·4	4·8	5·6	6·8	6·6	5·6	5·4
Sugar confectionery and chocolate	—	—	—	—	4·7	5·0	4·6	5·6

Higher exports involve higher imports of materials; and full employment involves both more materials to work upon and a larger consumers' demand for imported goods. It also, in the short run at any rate, calls for considerable imports of machinery. The total bill for materials and machinery is bound, under post-war conditions, to be very substantially larger than it was before the war.

[1] Dried only. [2] Monthly averages. [3] 1939.

The ability of Great Britain to procure these imports will depend, as soon as the American loan has been used up, almost wholly on the proceeds of British export trade and on the earnings of British shipping. For a period after the cessation of hostilities, the world shortage of supplies was such that it was easy to sell almost anything that British industries could provide for foreign customers; and the intensive export drive, which was pushed to the length of leaving British consumers with much less available than they wanted to buy, pushed up British overseas sales by the middle of 1946 to a volume approximately equal to that of 1938—and of course to a substantially greater value. This recovery was due almost entirely to high exports of machinery and of vehicles, to which the wartime structure of industry made it easiest to switch over. Exports of cotton goods, as well as of coal, remained an immense way below the pre-war level, which was itself regarded at the time as profoundly unsatisfactory; and there seemed to be no prospect of either of these vital exports getting back to its old position. It was evident both that the possibility of the large increase in total exports that was imperatively needed would depend mainly on the height of world demand for capital goods, and that the sales of these goods would speedily come to depend much more than they did just after the war both on the prices charged and on the readiness of the supplying country to give credit.

This was bound to hold good, above all, if the conditions of the world market were to be those of unlimited capitalist competition, as the Americans wished them to be. The system of complete multilateral trading, for which the Americans stand, rests on the assumption that, in the absence of all restrictive conditions, except the tariff, tied loans, and compulsory carriage of exports in American ships—which they conveniently ignore when they formulate their doctrines and press them on the rest of the world—each country will be able to achieve a balance of payments by selling as much as it buys, and will be able to buy as much as it has any right to expect. Under this system, or rather lack of system, there is no need for the trade of any one country, or group of countries, with any other country or group to balance, or for the gap to be filled by loans from the one to the other. Inequalities will be adjusted by sales to, and purchases from, third parties; so that country A will be able to pay for its excess of imports from country B by selling more than it buys in its trade with country C, which in turn will export to country B more than it imports therefrom. If any country tends in the aggregate to import more than

it has means of paying for, the balance will be redressed by internal deflation, which will at one and the same time reduce its demands for imports and bring down the prices of its goods, and will thus increase its exports by more than enough to offset the fall in the value of each unit sold. It is assumed, in the American doctrine, that the relative values of the various countries' currencies will be fixed, so that exports cannot be stimulated by currency depreciation—which is regarded as unfair. This leaves internal deflation as the only means of setting about redressing an unfavourable balance of payments; but of course such deflation is apt to lead to unemployment and is entirely inconsistent with the full employment policy which the Americans, equally with Great Britain, have pledged themselves to maintain.

Profiting by their extremely powerful bargaining position and by the difficulties in which other countries are placed, the Americans have done everything in their power to compel the rest of the world to adopt both multilateral trading and currency stabilisation as cardinal principles of economic policy. Under the Bretton Woods Plan, to which Great Britain was forced to adhere as a condition of the American loan, the relative values of the national currencies are to be fixed, not quite unalterably, but so as to make variation difficult except within a narrow range. Each country is left free to fix the gold value of its national currency on entering the scheme; and, thereafter each country is empowered to vary this value up to a total variation of 10 per cent. Beyond this point, no variation is to be allowed except with the consent of the managing board of the International Monetary Fund established to control the working of the plan; and variations even with the consent of the board are normally to be limited to a further 10 per cent., though under special conditions larger variations can be allowed. The point is that, beyond the initial 10 per cent. elasticity, each country entering the Bretton Woods Plan forfeits its power to fix the value of its currency to suit its own internal and external trading situation.

The Bretton Woods Plan is also designed to eliminate national control of the supply of foreign exchange, except in the case of capital transactions. One way open to a country which finds itself faced with an adverse balance of payments is to control or ration the supply of foreign exchange, in such a way as to restrict the total amount of foreign money that its nationals can claim in exchange for their own, and also, if necessary, to supply some kinds of foreign money more readily than others, and thus to direct trade towards the countries from which purchases can be

most easily made and paid for. The Bretton Woods Plan excludes, after a transitional period, all such forms of exchange control, and makes each member country liable to supply, for current (though not for capital) transactions, any amount of any foreign currency that holders of its own currency may demand of it. The Plan is meant, by providing an International Fund on which countries can draw, to make this possible; but it does so only to the limited extent of the credits to which the member countries become entitled. If these credits are exhausted, the scheme provides no means, except internal deflation or permitted currency devaluation, of dealing with the problem.

There is, indeed, a further provision whereby, if a particular currency becomes 'scarce' in relation to the demand for it, the directors of the International Fund can authorise the member countries to reimpose exchange controls on the supply of the scarce currency. This clearly refers to American dollars, which will inevitably become scarce unless the United States either steadily lends abroad enough to offset its surplus of exports over imports, or, by reducing its tariff, does away with this surplus by accepting a much larger influx of foreign goods.

Under the Financial Agreement attached to the American loan, Great Britain has not merely had to accept the Bretton Woods Plan, but has also promised to remove all exchange controls over current transactions within a year of the loan taking effect, instead of the five years allowed for under the Bretton Woods Plan. Great Britain has also promised, in this connection, to wind up the 'dollar pool' which was used during the war to ration the scarce supply of dollars among the countries of the British Empire.

Over and above all this, Great Britain was pledged by the Mutual Aid Agreement made during the war, to abolish trading 'discriminations,' which are interpreted in America as including all empire preferences, in return for a general promise that the American tariff would be reduced.

These various conditions will be discussed at greater length in subsequent chapters.[1] They are summarised briefly here, because they are directly relevant to the problem, which now confronts Great Britain, of raising exports to a sufficient level to pay for necessary imports, as well as gradually to pay off the sterling debts that have been incurred during the war, as well as the loans more recently made by the United States and by Canada.

The question is whether Great Britain can reasonably hope to sell enough exports in the world market to meet these obligations,

[1] See pp. 969ff.

unless it is to be allowable to some extent either to make purchases of imports conditional on the sellers agreeing to receive payment in British goods, or to establish bulk-purchasing Import Boards and state-controlled Export Boards which will be in a position to plan British sales and purchases in such a way as to achieve the same effect. If the Trade Proposals put forward by the Americans in 1945–6, and assented to under duress by the British Government as a condition of the American loan, did become operative, such methods of balancing imports and exports would be ruled out,[1] though it is not easy to see how some of the extraordinary proposals included in the American document could in practice be enforced.

If Great Britain is tied down in all these ways, the expansion of British exports will depend on three main factors—the general level of world prosperity and demand for imports, the relative prices of British exports and those of competing countries, and the relative ability of Great Britain and of other suppliers to grant long-term credit. Of these three factors, the first depends on considerations of world economic policy which will be under discussion in many of the later chapters of this book. The second depends on the efficiency of British production in relation to British wage and interest levels, and also on the elimination of all unnecessary selling costs. These factors too are considered in other chapters. The ability to grant long-term credits, however, depends on the actual achievement of an export surplus; for it is only out of such a surplus that the credits can come. In this respect Great Britain, in view of the heavy weight of existing sterling debts and of the further obligations of the American loan, will evidently be at a grave disadvantage to the United States. The Americans are in a position to grant unlimited credits, and to use these credits as a means of pushing their own exports to any extent they please; and there is a serious danger that they may try to meet a domestic slump largely by this method. This constitutes one of the most formidable difficulties in the way of securely balancing the British international accounts; for even if success is met with in building up a large export trade during the period of acute post-war shortage, this achievement may prove to be very precarious in face of a determined American attempt to export the unemployment due to a domestic slump.

All in all, the problem confronting British economic statesmanship is very serious, and there is clearly no hope of dealing with it successfully except on a basis of highly efficient production, especially of capital goods. That is why thorough reorganisation

[1] For a fuller discussion of this question, see Part V, Chapter XI.

of the great export industries is indispensable, not as a matter of Socialist economic theory, but for the sheer survival of the British economy under the conditions which are the outcome partly of technical evolution and partly of the severe losses sustained in the second World War.[1]

[1] The note which is to be found on pages 997–8, written after the serious fuel and weather crisis of the early months of 1947, should be read in conjunction with this chapter; and the reader is advised to turn to it at this point.

CHAPTER V

CHILDREN AND ADOLESCENTS

IN MAKING PLANS FOR THE reconstruction of our country after the war we have to make up our minds what the general nature of our social system is to be. This raises at once the great issue of Socialism *versus* Capitalism; but I want to leave aside in this chapter all direct consideration of the merits and demerits of these two alternative ways of arranging our economic affairs, and to deal only with the social, as distinct from the economic, aspects of the choice which we are called upon to make. In this form, the question which we have to consider takes shape as one, not of the organisation of industry or the control of employment or investment or the prices charged by producers for goods and services, but rather of the social relations between persons and groups and classes and of the conditions under which the various sections of the people grow up, live, die, marry and cope with the various hazards and insecurities of existence in the complex society of our time. My consideration of these vast questions is bound to be very brief: those who want to know more about the methods of handling them before the war, and about the results of these methods, will find fuller information in a book published in 1937, under the title of *The Condition of Britain.*[1]

Infant Mortality and Children's Allowances

First, then, out of every thousand children born in England and Wales between 50 and 60 have died before the end of the first year, and in Scotland nearly 70 have died within the same brief span of life. More boys than girls have died in infancy—which mainly accounts for the excess of women in the grown-up population. The English rates of infant mortality in recent times have not been high in relation to those of most other countries, but that they can be improved on further is shown clearly by the substantially lower rates in Holland, Norway and Sweden, Switzerland, Australia and New Zealand. Infant mortality has been

[1] *The Condition of Britain*, by G. D. H. and Margaret Cole. The figures given in this book are now, of course, ten years behind the times; but this makes little practical difference, as there are on many subjects few later figures available, and the experience of the war years is abnormal in many respects.

falling fairly fast; and in view of low birth rates it is very important to achieve further progress. The position was until quite recently very much worse in respect of maternal mortality—the death of women in or in connection with childbirth. Up to the middle 'thirties there had been no tendency for maternal mortality rates to fall: they were actually higher in 1931–5 than twenty years earlier (5·7 as against 5·0 per 1,000). Then at last they began to fall sharply—to as little as 2·5 in England and Wales in 1942.

What are the remedies? The fundamental remedies are twofold: better medical care and attention before and after childbirth, including greatly improved provisions for infant welfare, and improved economic circumstances for the families into which children are born. Women should not need, or be allowed, to go to work for a period of weeks before and after childbirth; housewives should receive home assistance over a similar period as a regular public service: generous maternity benefits should be paid, in addition to children's allowances on a thoroughly adequate scale: there should be free, safe milk for nursing mothers and for children: maternity and infant welfare services should be provided everywhere, and not left to the caprice of particular localities: every possible step should be taken to educate parents better in the knowledge of what is necessary for the care of young children: steps should be taken to prevent large families from being crowded into inadequate homes for want of means to pay for better accommodation. Naturally, the largest numbers of children are in the poorest families; for under a wage-system which takes no account of family responsibilities large households inevitably tend to be poor when the children are young. Children's allowances have at last been introduced under an Act passed in June, 1945, just before the General Election which brought the Labour Party into power, and will do something towards remedying the situation; but nothing is payable under the Act for the first child, and even for subsequent children the scale of allowances at present in force is altogether too low. Sir William (now Lord) Beveridge, in his famous Report, proposed 8*s*. a week for each child after the first, on the assumptions of a cost of living 25 per cent. above that of 1939 and of the equivalent of a further 1*s*. being given in kind. In fact, the cost of living is likely to remain considerably higher than Lord Beveridge assumed. The lowest acceptable scale for children's allowances, exclusive of allowances in kind, should be 10*s*. a week for each child—especially if no payment is to be made for the first child in a family. The former Government tried to defend its much lower scale by stating its intention to increase allowances in kind; but

the full development of the required services will at best take time, and whatever may be done in this respect will not remove the need for a good, basic allowance to be spent on maintaining the child at home.

The Care of Young Children

Consider now what happens to the children who escape death in infancy. Normal schooling does not begin until the age of 5. Many mothers go out to work, and need to make provision for the care of their children while they are away; and it is likely that more, rather than fewer, mothers will need to do this in the post-war period, not only because they will wish to do so for personal reasons, but also because the nation will need their labour-power. There are a few nursery schools subsidised by Local Education Authorities, and young children are admitted to infants' classes in elementary schools; but provision has hitherto been made for only a tiny fraction of the children under school age. During the war, the necessity of getting more married women to work full-time in the factories compelled the State to arrange for the setting up of places in the bigger centres where mothers could leave their children to be cared for during the day. This form of provision, instead of being done away with as soon as hostilities ended, ought to have been put on a permanent basis, with much better premises and more adequate staffing than were practicable under war conditions; and there ought to be, in close connection with this service—unless, indeed, the two services are wholly amalgamated —a greatly increased supply of nursery schools, which it is now, under the Education Act of 1944, a part of the obligation of every Local Education Authority to provide for all who want them.

When I say nursery schools, I mean real nursery schools, and not mere nursery classes in infant schools under the primary code; even if they are called nursery schools under the new Act. I mean, as soon as they can be provided, properly equipped open-air nursery schools, staffed by teachers and social workers properly trained for such work, and capable of dealing with the child's needs over a much wider field than that of education. The nursery school service should of course include meals and milk—free or at a nominal charge. It is indispensable to fill the gap in child welfare that so often involves malnutrition and lack of proper care for health of children under the school age, as well as to provide, for children who are at school, meals and milk during holidays as well as on school-days—and to provide these services with their own staffing arrangements, so as not to impose impossible burdens on the teachers. The best allocation of duties

in respect of child welfare between the educational service and the proposed new all-in service of health remains to be settled. A great deal will depend on the progress made in establishing Health Centres, and on the shape given to such Centres—for example, on the degree to which it is decided to treat the family as a unit for the provision of health services, or to specialise the provision for children in separate institutions. There are at present many different notions of what a Local Health Centre ought to be, and to comprise; and this chapter is not the right place for discussion of the various alternatives. All that I need insist on here is that there should be no gaps in the provision either for school children or for children who are not yet attending school in any formal sense.

The Two Nations at School

We come now to the time when the child goes to school; and this is obviously the point at which we have to consider the problem of the 'two nations.' For we have in Great Britain two quite separate school systems, not wholly without communicating bridges, but with no common direction or unity of purpose. On the one side stands the state system of education, looked after by the Local Education Authorities and paid for partly from rates and partly from national taxes; and on the other side stand the privately owned schools, some run for profit and some under special trusts or charters, and ranging from the famous 'public' schools and the preparatory schools closely connected with them to all manner of 'modern' schools, 'crank' schools, and very old-fashioned and inefficient schools run for profit largely on the basis of 'snob' value. The first of these two forms of educational provision is, of course, vastly the larger. The great majority of children go from first to last to schools conducted within the state system. The 'public' schools, even in the widest sense of the term, and the 'preparatory' schools together embrace only a tiny fraction of the age-groups for which they cater: the other private schools are also on quite a small scale. But the 'public' schools—so called because, though private, they are conducted not for profit but under some sort of trust or charter—carry a high prestige and are pre-eminently the schools of the rich and of the higher professional classes. Some of them are boarding schools, but they include also a number of the most important day schools. Some of them are very expensive, some much less so, but all have been hitherto beyond the means of the vast majority of working-class parents, even if there had not been in most instances other obstacles in the way of working-class attendance.

They include girls' schools as well as boys' schools, and a few are co-educational; but in England, as distinct from Scotland, co-educational schools are still commonly regarded as belonging rather to the group of 'modern' or 'crank' schools than to the highly respectable 'public' schools group.

Here we have the 'two nations' decisively set apart at the stage of childhood. And yet they are not set wholly apart. Included with the 'public' schools have been a number which have been grant-aided by the State—the 'direct grant' schools—a category which remains in being under the new system, though there will be changes in its composition. On the fringe of the state system have been a number of other schools which have been aided by the Local Education Authorities, but have preserved their independence—the 'aided schools'—and yet others, once independent, which have been financed by the L.E.As. and have surrendered most of their independence—the 'maintained' schools—to be called in future 'controlled secondary schools.' From these 'maintained' schools it has been but a short step to the state secondary schools built, provided and governed by the L.E.As. under the higher education powers first conferred on them by Parliament in 1902, and greatly extended by the 'Fisher' Act of 1918. These in turn have not been sharply marked off from the 'central' schools or from some of the senior schools provided by L.E.As. under the old elementary education code or financed under that code where they have been 'provided' by outside bodies, such as the Church of England or the Roman Catholic Church. Beyond these again we come to the general run of elementary schools, which have been variously divided into junior and senior departments, all-age departments, and so on, with many local differences. The junior sections of this system now become 'primary,' and the senior 'secondary' schools—for all school education beyond the age of 11 is now to be called 'secondary.' And parallel with the general state system has run the system of technical education, diverging from the main stream usually at the age of thirteen, but sometimes earlier, and running from the junior technical school on to the Technical College, at which the great bulk of the students have attended only part-time. These junior technical schools also will now rank as part of the secondary system.

The old nomenclatures and classifications were confusing enough; but to enhance the difficulty we are at present in process, under the Education Act of 1944, of recasting much of the system and of adding further pieces on to it—a process involving, as we have just seen, much reclassification and many changes of name.

The best way of sorting out the complexity seems to be that of presenting the old and new structures by visual representation, though there are bound to be gaps left either where the variations are too many or where the structure of the new system has not yet been fully decided upon.

The Educational System—Present and Future

Here, then, on pp. 520 and 512, are two pictures of the British educational system—one as it was before the war and the other as it is planned to be when the Act of 1944 has been brought fully into force. That, by the way, cannot be for a long time yet, whatever the policy of the Government in power; for there are real difficulties in providing quickly either the teachers or the buildings needed for its working as a complete system. These difficulties are, of course, being used by those who wish to obstruct development or to preserve threatened 'snob' values as an excuse for delays beyond those which are unavoidable; but it is vain to blink the fact that some delay cannot be helped, and that it is necessary to give priority to some parts of the scheme over others. For example, it is unavoidably necessary to postpone for a time the raising of the normal school-leaving age to 16; but it would have been inexcusable to allow any beyond the briefest delay in raising it to 15. A very high priority ought to be given to the establishment of the new range of 'secondary schools for all,' starting at 11 or 12 and running up beyond 15, and to the building and equipment of the County Colleges for part-time continued education up to 18. Hardly less urgent is the reorganisation of the primary schools for children up to 11, including the great extension needed in Nursery Schools and the rebuilding of a good many schools so as to provide accommodation for smaller classes, as well as to improve amenities and remedy sanitary defects. There is also urgent need for a greater provision of special schools, not only for mentally defective children, but for many who suffer from physical disabilities calling for special treatment. At the higher end of the scale, the arrangements for the training of teachers need to be immensely improved, including the replacement of two-year by three-year courses and the breaking down of the present isolation of most of the Training Colleges from the rest of the higher educational system. We ought to cease training boys and girls of 18 or 19 specifically as teachers in separate institutions which segregate them from those entering other professions. The Training Colleges should be converted or merged into People's Universities, catering not only for teachers but also for entrants to

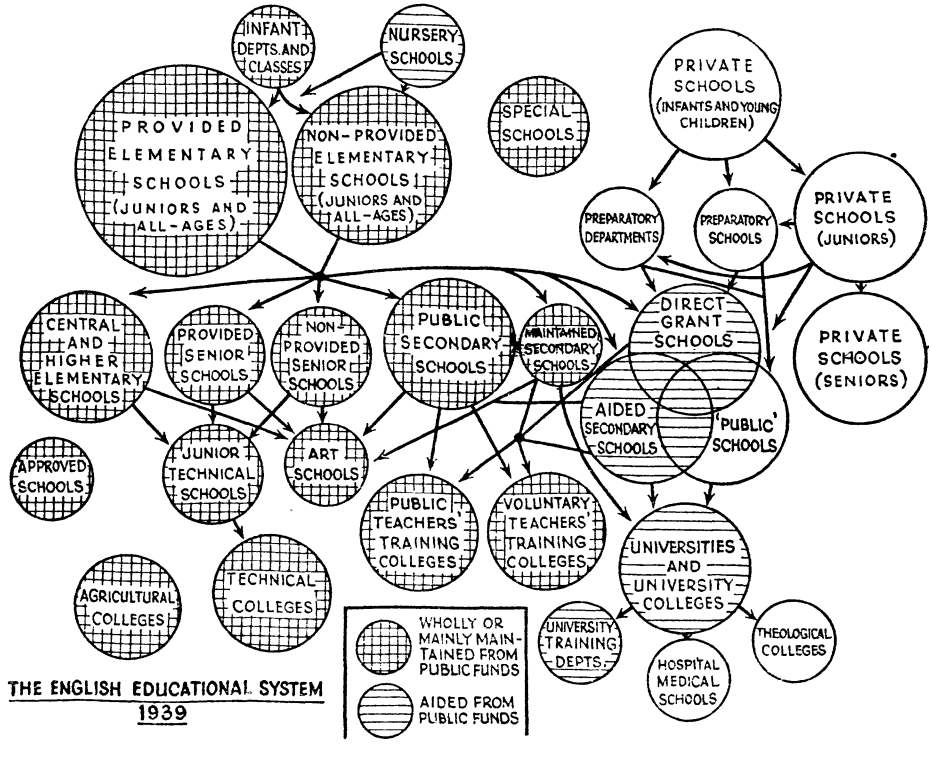
all kinds of social service work, to the local and national government services, and to the welfare and personnel sides of business. The Technical Colleges should be similarly expanded to cater for more full-time students and for more work in 'arts' subjects, and should also be merged into People's Universities. This new type of University, which ought to exist in every considerable town, could be created by federating together the local Technical College, the local Training College or Colleges, the local Art School, any local institutions concerned with the higher ranges of Adult Education, and perhaps other bodies.

English education will fall a long way short of what is needed, even when all the changes provided for in the Act of 1944 have been carried into effect. The division between the 'two nations' will remain; for there is nothing in the Act to secure the absorption of the independent 'public' schools or the private schools into the state system, or to prevent the richer classes from sending their children to private and preparatory schools instead of state schools for the earlier stages of their education.[1] True, under the new Act, all schools catering for children beyond 5 years of age are in due course to be subject to inspection and registration, in order to ensure their conformity to certain educational standards; but this reform, while it will strike at the most inefficient types of private schools catering for the lower middle classes, will have no effect on the private and preparatory schools which cater for the upper and upper middle classes and prepare children for the 'public' schools. Schools of these latter types, like the 'public' schools themselves, are as a rule tolerably efficient according to their lights. What is wrong with them in the main is not inefficiency but their class character. There is a great deal to be said for the view that the State primary schools will never be made good, in respect of buildings, equipment, and adequacy of staffing, until they become 'common' schools attended by the children of the well-to-do as well as of the poor.

Secondary Education for All

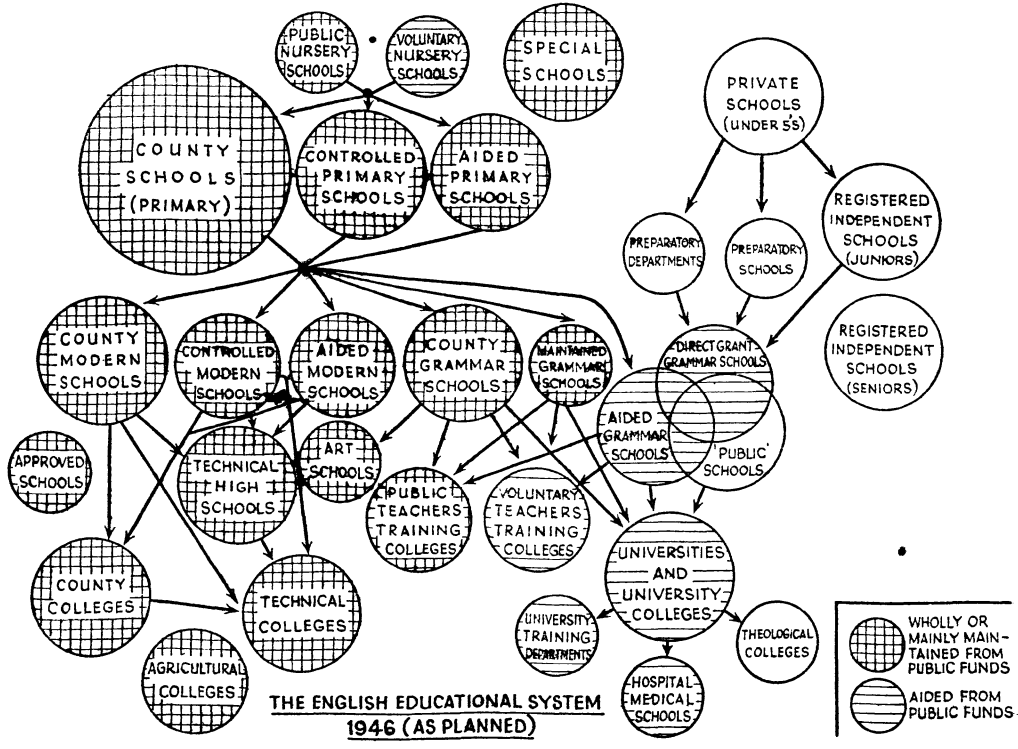
At the senior stage, it is a great advance that the State has at last committed itself to the principle of free secondary education for all; but it has still to be seen what this will be allowed to mean in practice. There has been much talk about 'parity of esteem' for all types of secondary school; but it will not be easy to secure this.

[1] There may, however, be some tendency towards assimilation on the side of the teachers—for with uniform secondary scales of salary the security and the pension rights under the state system will attract teachers into it from other types of school.

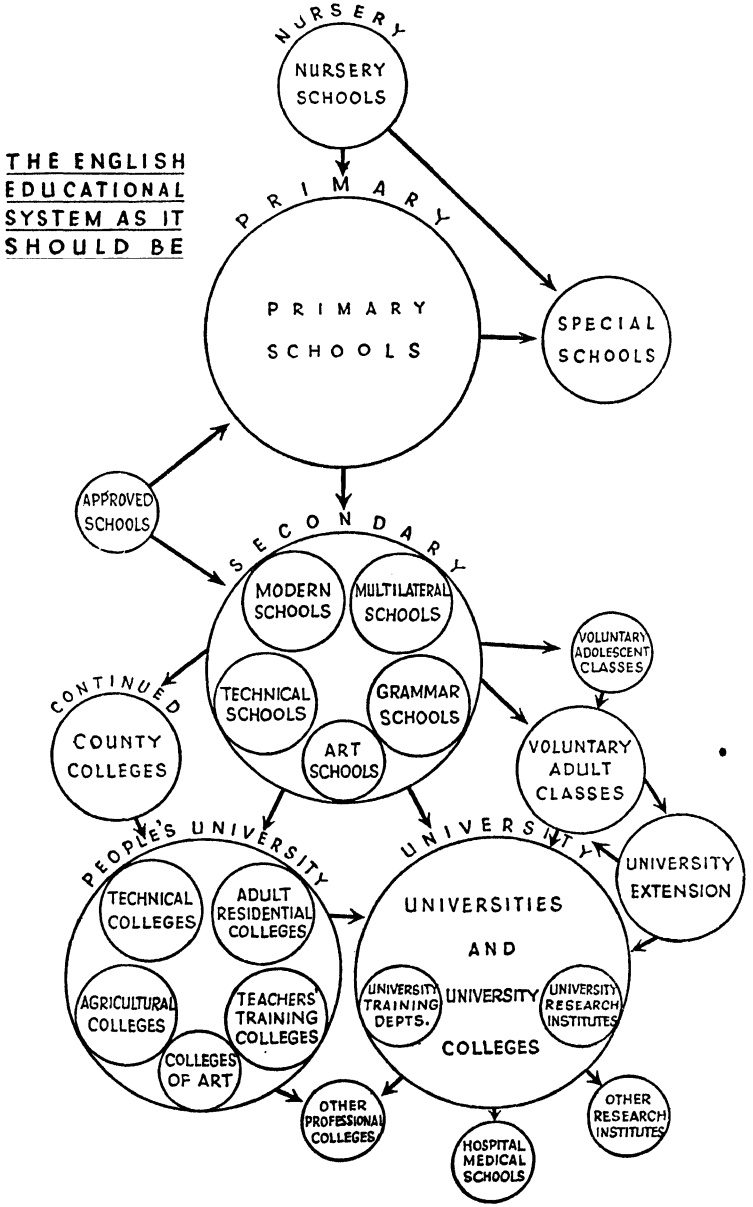


THE ENGLISH EDUCATIONAL SYSTEM

1939



THE ENGLISH EDUCATIONAL SYSTEM
1946 (AS PLANNED)


THE ENGLISH EDUCATIONAL SYSTEM AS IT SHOULD BE
NURSERY
NURSERY SCHOOLS
PRIMARY
PRIMARY SCHOOLS
SPECIAL SCHOOLS
APPROVED SCHOOLS
SECONDARY
MODERN SCHOOLS
MULTILATERAL SCHOOLS
TECHNICAL SCHOOLS
GRAMMAR SCHOOLS
ART SCHOOLS
VOLUNTARY ADOLESCENT CLASSES
VOLUNTARY ADULT CLASSES
CONTINUED
COUNTY COLLEGES
PEOPLE'S UNIVERSITY
TECHNICAL COLLEGES
ADULT RESIDENTIAL COLLEGES
AGRICULTURAL COLLEGES
TEACHERS' TRAINING COLLEGES
COLLEGES OF ART
UNIVERSITY
UNIVERSITIES AND UNIVERSITY COLLEGES
UNIVERSITY TRAINING DEPTS.
UNIVERSITY RESEARCH INSTITUTES
UNIVERSITY EXTENSION
OTHER PROFESSIONAL COLLEGES
HOSPITAL MEDICAL SCHOOLS
OTHER RESEARCH INSTITUTES

It will indeed be impossible as long as children normally leave the 'modern' school at 15, whereas they remain at the 'grammar' school (the new name for the old type of secondary school) until at least 16. Nor is it yet at all clear where the technical high schools are to fit into the new structure, or what scope will in practice be allowed for 'multilateral' schools enrolling pupils for all branches of secondary education. It will not be easy to prevent the 'modern' schools from being regarded as dumping grounds for those who are not intellectually good enough to be accepted by a 'grammar' school, or from being creamed of many of their better pupils by the technical schools if the latter maintain an entering age of 13 whereas children normally pass into the 'modern' school or the 'grammar' school (or its preparatory department) at 11 or at most 12.

Nor do we yet know what is to be done about the methods of selection for different types of secondary school. Hitherto, in most cases, a poor man's child has depended for its chance of secondary (= grammar) school education on its showing in an examination taken at the age of 11. It has been agreed that this extraordinarily unfair system ought to go; but no one yet knows what is to take its place. Clearly there ought to be either a general adoption of the multilateral system, which would be difficult in the near future because of the large amount of new building which it would involve, and is unlikely for many other reasons, or the greatest freedom of interchange between grammar school, modern school, and technical school at *any* age between 11 and 15—or 16 when that becomes the upper limit for compulsory full-time schooling. Clearly, also, 'modern' schools ought to be equipped and staffed at standards equal to those of 'grammar' schools, or there will be no resisting the tendency to treat the 'modern' school as little more than a 'senior' school for the less able children—hardly different from the supposedly abolished senior elementary school. This tendency needs to be fought all the more strenuously because at the outset many of the 'modern' schools will necessarily take over the buildings and teaching staffs of the existing elementary schools for senior pupils, and it will need prodigious efforts to convert them into secondary schools even nearly equal in prestige and standard to the 'grammar' schools or even to the technical schools, which are relatively few but, owing to their close connections with the Technical Colleges, usually fairly well equipped.

County Colleges and Technical Colleges

Another still unsolved problem is that of the relations which will exist between the Technical Colleges and the new County Colleges

to which school-leavers are to go for part-time education up to 18. Evidently, the County Colleges ought to be mainly centres for continued education on non-vocational lines, designed above all else to fit boys and girls for intelligent citizenship and for the good management of their private lives. But there is ample evidence that many adolescents will get most out of a cultural education that, instead of being divorced from vocational subjects, is closely integrated with them. It would almost certainly be a grave error to send to the County Colleges for non-vocational education those who are receiving technical education in technical schools or Colleges, instead of making the technical school or College a centre of cultural education as well—as, indeed, all the better Technical Colleges are rapidly coming to be. And it would be equally an error to make the County Colleges so 'cultural' as to exclude from them, or relegate to a minor place, the teaching of the skilled use of hand and eye, or to prevent them from expressing in their work the essential integration of culture and practice. Many adolescents who are not training for a particular skilled occupation will learn better by doing and learning than by merely learning without practice. There should be a broad highroad from the County College to the Technical College, and from part-time work in either the County College or the Technical College back to higher full-time education.

The 'Public' Schools

Turn next to the problem of the 'public' schools—a phrase which no one has ever been able exactly to define. They range from such ancient foundations as Winchester, Eton, and St. Paul's, through the nineteenth-century creations designed for the growing well-to-do middle class, to a select number of local grammar schools of high repute. The phrase does not include the secondary schools set up by Local Education Authorities since 1902; nor is it usually taken to include the great majority of the grammar schools, which are now for the most part largely aided—and some wholly maintained—out of public funds. The essential characteristics of a 'public' school, as the phrase is ordinarily meant, are that it is run neither by a Local Authority nor for private profit, but under some sort of charter, deed, or trust, and that it retains a substantial number of pupils up to University age and actually sends a substantial number on to a University. Sometimes, people speak as if 'public' schools were also essentially boarding schools, and nearly all the well-known boarding schools do belong to this class. But such great day schools as St. Paul's, Westminster, and

Manchester Grammar School are also clearly 'public' schools in the accepted sense of the term.

The 'public' schools differ very widely in cost and in social composition. The more expensive draw almost wholly on the children of the rich and of the higher professional classes—the latter being largely helped by scholarships. The lesser boarding schools and the day schools have a wider social range, the former including in normal times many boys and girls whose parents are absent abroad. There are fewer boarding schools for girls than for boys. 'Public' school education normally begins at 13; but many of the schools, including most girls' schools, have preparatory departments, and for boys there is a special group of preparatory schools definitely aligned to the 'public' schools.

Many 'public' schools already receive aid from public funds—some directly from the State ('direct grant' schools) and others through the Local Education Authorities. Others have received no grants, but have voluntarily accepted inspection by the State, and have been "certified efficient" by the inspectors. Yet others have remained entirely outside the state system; and there is no logical line of division between the four groups. Schools which receive public money usually prefer 'direct grants,' if they can get them, because such grants both give greater independence of the Local Authority and confer greater prestige; but it is partly a historical accident to which category a particular school belongs.

In the main, the Act of 1944 leaves this peculiar system, or absence of system, where it was, with the one great exception that for the future no school in receipt of aid from public funds will be allowed to charge tuition (as distinct from boarding) fees. Secondary education is to be free to all who want it; and this involves the abolition of fees in the aided schools, which form an essential part of the provision of 'grammar' school places. There is, however, no absorption of the aided schools—much less of those which do not receive grants—into the state system. The aided and controlled secondary schools, and the 'direct grant' schools too, where they receive aid from the Local Authorities also, will have to agree to reserve certain numbers of places—still to be settled case by case—for boys and girls coming from the state primary schools; but they will be free to select the rest of their entry from other sources. Thus, the separate system of private preparatory schools will be able to go on for those who can afford them; and boarding fees, which will remain, will still keep out of the more expensive 'public' schools all children of poor parents who are not given scholarships adequate to cover

the high costs of boarding and living in a school designed for the well-to-do.

The Wrong Way of Dealing with the 'Public' Schools

Many plans have been laid lately for opening the doors of the 'public' boarding schools to children from poor families. But most of these plans appear to envisage only a small entry of children who can be readily assimilated to the existing habits of the schools, rather than such an entry as would compel a change of habits. Such a 'reform,' far from democratising the 'public' boarding schools, would merely promote a small number of working-class children into the ranks of the middle class. Lip-service is paid to the idea that every child ought to be able to get the kind of education that suits it best, irrespective of the parents' means; but, if this were really meant, the admission of a few boys and girls from poor families to the 'public' schools would be no way of going about the job. The most ardent upholders of the 'public' school system are usually enthusiastic advocates of boarding schools; and, if boarding schools possess the virtues claimed for them, it follows that, on the principle of the equal chance for all, provision of boarding places is needed not up to 5 or 10 or 15 per cent. of the accommodation available in existing schools, but up to many times the total accommodation. The only way of providing this would be for Local Authorities, just as they have created day secondary schools on the model of the older grammar schools, to create boarding schools on the model of the less expensive public boarding schools of to-day. There is power to do this under the Act of 1944; but I have still to meet anyone who expects this power to be largely used.

Boarding School Education

Personally, I believe the claims made on behalf of the boarding schools to be grossly exaggerated. There is a strong case for boarding schools for children whose parents are abroad, separated, dead, or always quarrelling; for children from sparsely populated areas, which cannot support schools of the sort they need near their homes; and for children who need special open-air or country conditions. There would be a further case if we wanted to mass-produce little Nazi *fuehrers*, or imperial pro-consuls, or standardised wearers of old school ties. If, as I hope, we do not, there is everything to be said, in the case of most children, for the home environment and the day-school for most of the time.

Not, however, as I think, for all the time; for I should like to

see most young people given a chance of a reasonable spell of boarding during their school lives, as an experience, but not too long an experience, of community-living. I should like every secondary day school, including every 'modern' or 'technical' school, to have attached to it a schoolhouse in the country, where all pupils whose parents did not object would spend some terms during their school careers. This is much more than the 'holiday camp,' though such camping could be provided for in the grounds attached to the country schoolhouses; it is meant to include doing regular school work in the country for whole terms on end. Evidently, the necessary buildings and equipment would take time to provide; but I look forward to this destiny for a good many of the bigger country houses which are likely to become available for public use. Such a plan would do much both towards breaking down the separation between town- and country-bred states of mind, and towards giving on a democratic basis to all children what is really valuable in the methods of the 'public' boarding schools.

Will the Two Nations Remain?

In the meantime, the Act of 1944 leaves the 'public' schools in being as the breeding-ground for one of the 'two nations.' Yet this point can easily be pressed too far. There is to-day no sharp dividing line between the 'public' schools and the aided grammar schools, or between the aided grammar schools and the existing state secondary schools in the old sense of the term. The line is very much sharper between all these on the one side and the senior schools hitherto under the elementary code on the other; and the greatest danger is that, while nominally providing secondary education for all, we may in practice allow the old distinction to be carried over into the new system, as a sharp line between the grammar school and the modern school.

Universities, Teachers' Training Colleges and People's Universities

In the nineteenth century the Universities were recruited almost exclusively from the 'public' schools, until with the rise of the newer Universities in the provincial towns and in London, the local grammar schools began to send increasing numbers of their pupils on to an undergraduate stage. To-day, new and old Universities alike draw largely both on grammar schools and on state secondary schools; and both types of school also send considerable numbers of students to Teachers' Training Colleges. University education, especially at the older Universities, remains

expensive; but the number and value of scholarships have considerably increased, and are to be increased further in accordance with the new policy, and, in particular for potential teachers, the costs are met largely from public funds. The Universities depend increasingly on grants from the State and the Local Authorities—indeed, they now derive the greater part of their revenues from public sources: the Training Colleges depend almost wholly upon such grants in one form or another.

I have already argued that it is undesirable either to compel young people to declare their intention to become teachers at an age when they cannot know whether they will like teaching, or make good teachers, or to segregate potential teachers during their period of higher education and training from those who are intending to enter other vocations. Hitherto, for many students, a declaration of the intention to become teachers has been the only way of opening the road to higher education; and the continuance of this compulsion is sometimes defended on the ground that it is the only practicable way of getting as many teachers as the nation needs. It is clearly a very bad way; and I do not believe it is the only way that is open.

It would be in some ways attractive to propose that *all* students needing a higher education with a view to entering any profession, including teaching, should go to a University and take a degree course before embarking on any necessary period of specialised vocational training. This would avoid both premature specialisation or choice of career and segregation of those destined for particular vocations. Such a solution is, however, even if we leave aside for the moment the special complications affecting technical and art students, both impracticable and undesirable for the present. It would utterly swamp the Universities, changing them out of all recognition: it would disastrously lower their academic standards; and it would fail to give the main body of the new students what they want, because the Universities, as they are to-day, would neither understand nor be able to supply their needs. The solution must be sought, as I have already suggested, along different lines—by creating Universities of a new kind. These include the People's Universities referred to earlier, to be brought into existence by linking together in local federal institutions the Technical Colleges, Teachers' Training Colleges, Colleges of Art, and other suitable bodies, including Colleges of Adult Education where they exist, as in Leicester and London, or are founded as a result of the campaign associated with the name of Sir Richard Livingstone for a widespread development of residential adult education. These People's Universities, as I envisage

them, would be open to both full-time and part-time students, as most of the existing Universities already are. They would have common arrangements for social activities, sports, political and cultural societies, common rooms, residential hostels, and so on, over and above the separate arrangements appropriate to the needs of each type of College included in them. In the end, they might look to ranking as equal in status with the existing Universities, but with a different and more practical range of specialisations. For some time ahead, their *minimum* standards would have to be definitely lower than the existing Universities' standards ought to be, if not than they in some cases are.

In such a plan, the Teachers' Training College would tend to disappear as a place of general higher education for potential teachers, though it might remain as a specialised *finishing* institution for teachers needing particular training, e.g. for the teaching of young children. Apart from such cases, it would turn into a Social College not associated with any single profession, but suitable equally for preparing teachers, civil servants, local government workers, social service workers, youth leaders, factory welfare workers, and a host of other developing types of professionals needed under modern conditions of community living.

Of course, there would have to be very full provision for coming and going between these new People's Universities and Universities of the existing type. Students whose needs would be better met by a course in a University of the latter kind should be able to transfer easily; and students from an existing University should be able to move to a People's University for courses of training for social work, courses in applied technology, courses in art, courses in agriculture, and so on. For the present, I doubt whether People's Universities should confer degrees. It might be better at the outset for them to grant diplomas and certificates, and for their students to be allowed to sit for degrees at the existing Universities, or for a special degree course organised on a national scale, and open to students from all the Universities concerned.[1] But I see no reason why they should not develop into degree-granting bodies, especially in subjects falling within their special fields.

The Technical Colleges, with their close connections on the one hand with the technical schools and on the other with industry, would evidently hold a special place in the new People's Universities. To a considerable extent, they would need to retain

[1] Not, as at present, London University, acting as an external examining body. The proposed national agency ought to be fully representative of all types of University—new as well as old.

their separateness as teaching institutions; but they would stand to gain greatly from the wider associations into which the plan would enable them to enter. They would need, of course, special connections with the science departments and research institutes within the existing Universities; but they should by no means be prevented from developing their own research activities in fundamental as well as in applied science. Research should, indeed, be made an integral part of the work of the People's Universities as well as of those of the existing types. In particular they should develop large research activities in the social as well as in the natural and applied sciences. Higher education cannot thrive where it is divorced from research: the mingling of the two invigorates teachers and pupils alike.

Adult Colleges

As an integral part of every People's University I envisage an Adult Education College, for spare-time as well as for residential students, serving as an adult education centre for the entire neighbourhood, and closely related to the bodies carrying on adult classes—Workers' Educational Association, Co-operative Society, National Council of Labour Colleges—if they agree to come in—and so on. Lectures in all the Colleges of the People's University should be open to students from any College; and there should be a good deal of pooling of staffs for specialist teaching. Probably the buildings of the various Colleges would have to remain widely scattered—some of them in the country round about the central town—but there should be at any rate a central campus, with its Union Society or Students' Union as well as its administrative offices, halls for meetings, and where possible gardens and open grounds.

The Content of Education

So far, I may seem to have been dealing altogether too much in terms of institutions and administrative provisions, and too little in terms of the positive content of education. In the last resort, what really interests us about education is not the administrative machinery, but the education itself; but laws are necessarily made, and public money spent, on the basis of administrative arrangements; and accordingly these become the themes of controversy, and the question of what we are trying to teach too often gets shoved right into the background. The question of secondary as against elementary education, for example, easily turns into an argument, not about the character of the education that is to be given, but about the status, pay and conditions of the

teachers and the type of authority that is to control the administrative arrangements. It is easy to see that this is wrong, but not at all easy at present to escape from it; for the two sets of issues are not wholly separable. We cannot expect to get good teachers unless we pay them reasonably well, give them fair teaching conditions, and accord them a satisfactory prestige and a wide measure of personal freedom in their private lives as well as in school. Teachers who fight for secondary status—or to preserve 'grammar school' status—are fighting for all these things; and it is not mainly their fault if they have to wage their battles mainly on the administrative front.

Nevertheless, of course, what really matters is the teaching—its quality and its purpose. I say both 'quality' and 'purpose,' because good or bad teaching is a matter, not only of doing a *given* job well or ill, but also of setting out to do a good or a bad job. We need *good* teachers, in the sense of men and women of good abilities, with a good understanding of the minds of children of the ages they will be set to teach; but we need also a clear conception of what we expect from education, and of what we are setting these good teachers, when we can get them, to do.

This problem of educational purpose, however, is one which, when we argue about the provision which the State ought to make for the schooling of its citizens, we are usually most unwilling to face. Quite naturally so; for it is very much easier to get Parliament to vote more money for education than to get it to agree on what sort of education the money is to be spent. Catholics want one thing, ardent Churchmen another, ardent Nonconformists, atheists, agnostics all want different things. Business people tend to think of education with a different set of associations from professional people: scientists and classics regard it differently: many people just think that more education is a good, or a bad, thing, without analysing at all what sort of education they are praising or crying down. Some regard more education as a means of getting on in the world, either by making more money or by stepping up the ladder of social prestige. Some think of it in terms of a greater mastery of the world we have to live in, others of a better furnished escape from that world. There is no agreement about the purpose of education even among those who unite in wanting more of it, and supported the Act of 1944 while it was under debate.

Education and Social Purpose

It is impossible to settle the purpose of education, or of any particular educational institution, curriculum, or plan, except in

relation to the lives which the pupils or students are intended or expected to lead. To take the matter at its broadest, we had in 1944 to decide between two alternatives in immediate educational reform: we could not by any possibility have both. Short as we were bound to be for some time to come both of good, or even passable, teachers and of good, or even passable, buildings and of the means of erecting more, we had to choose between giving children more schooling at the cost of spreading thinner the supply of teachers and accommodation and giving more efficient schooling at the cost of giving less. Within this main choice we had to make another—between giving to the older children two widely different qualities of education, one for the abler in certain specific directions and the other for the rest, and trying to give, as nearly as we could, the same quality (though not of course the same sort) to all normal children, irrespective of their several abilities. On the whole, the Act of 1944 plumped for quantity rather than quality, in the expectation that quality could be tuned up later, and, more equivocally, for equality rather than differentiation of quality at the secondary stage. It was decided to raise the school-leaving age to 15, and as soon as possible to 16, though this was bound to mean both the employment of inferior teachers and a postponement of the very necessary reduction in the size of classes; and it was also decided to put all the schools catering for the senior children (except those outside the state system) into a common administrative category, as secondary schools—which meant common scales for the teachers and at once lifted up many elementary teachers to higher levels of income and prestige and correspondingly lowered the prestige, and in some cases the incomes, of teachers in the existing types of secondary (=grammar) schools.

Were these decisions right or wrong? I should say, right, despite the obvious drawbacks. For the alternative decisions would have been entirely inconsistent with any sort of democratic pretensions. Public opinion simply would not have stood for an Act which had either left the school-leaving age at 14, and had thus continued to deny the chance of higher education to the main body of the people, or had set out to provide improved secondary education for a small minority, while openly fobbing off the majority of the senior children with an inferior article. We may know full well that in practice it will not be possible for a long time to come to secure either 'parity of esteem' or real equality of educational achievement between the *average* grammar school and the *average* modern school promoted from the elementary to the secondary grade. But we could not afford to miss the opportunity of laying

down this parity and this equality as long-run objectives towards which it was imperative to attempt an immediate approach. Again, we might know that in the short run more would be achieved by reducing the size of classes and improving accommodation for children up to 14 than by providing an extra year's schooling of indifferent average quality; but we could not afford to miss the chance, which might not come again soon, of getting the school-leaving age up to 15 at once, with a pledge to raise it to 16 in the near future, because we knew this change would be beneficial and democratic in its long-run effects.

The Shortage of Teachers

It is, however, a worrying situation when one is put into the position of having to urge reforms which will inevitably cause serious short-run difficulties. It is most worrying of all when, in order to get a Bill passed into law and not to disturb the majority in favour of it, the most essential questions have to be left almost undiscussed. For a not inconsiderable part of the difficulty which faces us arises from the failure to face and argue out the real educational issues. For example, the impasse we are in about getting the numbers of teachers we shall need without seriously lowering the quality is partly due to the fact that, not having discussed the content of education, we take it in the main for granted that we want more teachers of the same types as we have been getting in the past, but with a higher proportion of them possessing 'secondary' qualifications to correspond to our decision to provide secondary education for all. How can we possibly get this, when the supply can be expanded, along the traditional lines, only by taking in more of the worse qualified?

On the other hand, the situation might appear quite different if we were consciously trying to bring in different kinds of teachers. We cannot, however, want different kinds of teachers without wanting different kinds of education; and our refusal to face this issue leaves us in practice assuming that we want the same kinds as we have been getting and giving in the past. The confusion is made worse because headmasters and headmistresses, and indeed teachers in general, are, like most professional groups, pretty conservative and content with their existing ways, or at all events pretty timid about innovations. The consequence is that, in the absence of any clear formulation of what we are trying to do, there is an immense weight of tradition pressing in every area towards the creation of more schools as nearly as possible like, in their educational objectives, to those which exist already, and similarly, where change is involved, because we are creating a

nominally new kind of school—the 'modern' school—pressing to assimilate the new creations as closely as possible to one or another of the models provided by the existing system.

The Conflict of Educational Ideas

Talk to any random group of grammar school headmasters. You will find that most of them hold that grammar school education is really the only good type of higher school education. They may admit, usually with reluctance, that there is a case for technical high schools; but they simply cannot help regarding the 'modern' school as a dump for those who are not worthy of admission to a grammar or perhaps a technical school. The technical school heads are, on the whole, less narrow-minded—partly because they are used to regarding the grammar school people as snobs and are often not claiming to be 'gentlemen' themselves, in the grammar school sense of the term; and partly because they have been accustomed to get their pupils mainly from the elementary schools at 13, and not like the grammar schools to start them at 11—or earlier, where they have preparatory departments of their own. As for the heads and teachers of the senior elementary schools, they are divided between claiming that their schools have been responsible in recent years for much more original development than most of the grammar schools and a feeling of social inferiority to the grammar school staffs which may find expression in either assertion or abasement.

The Question of Educability

How much truth is there in the 'grammar school view' that, out of every hundred boys and girls, there are on the average perhaps twenty or thirty who are capable of higher education, and that the rest are simply incapable of living up to it? There is, obviously, some truth in it. There are in the community of to-day very wide differences of intellectual ability; and there is, at least, a clear majority of children who, by the time they reach 11, are incapable of mastering either a grammar school or a technical school education at the existing standards. Suppose we say there are sixty out of every hundred of whom this is true. Does this mean that the sixty are inferior to the forty? On the average, yes, whatever reasonable standard we adopt. Individually, no, in a proportion of instances fully sufficient to matter a great deal. It means that we are not, by our existing methods of education, catering adequately for the types of ability which are present among the sixty who lack the recognised cultural or scientific aptitudes, or

have been given no chance of developing them in their early years.

The 'modern' school, if it is to serve the purposes of democracy, must discover and provide for these aptitudes. If children enter it, as is planned, normally at or near eleven, and if the technical schools continue to admit entrants only at thirteen, it will have at the latter age to pass over an appreciable proportion of its students—those with signs of scientific or technical ability—to the technical schools. It should also be passing over, at any time between eleven and thirteen, an appreciable proportion who show 'cultural' abilities to the grammar schools. Indeed, the years between eleven and thirteen should clearly be used to re-sort children between the grammar schools and the modern schools, so as to correct the numerous mistakes which are bound to be made if the normal age of assignment is put as low as eleven. This re-sorting should be a two-way process; but from thirteen to fifteen the 'modern' school will be left with its settled school population to handle. How ought this to be done, so as to foster the types of ability which the other types of secondary school are not so equipped as to recognise or to bring out?

Ignored Abilities and the Modern School

The answer to this question is at once entirely obvious to any person of common sense and extraordinarily difficult to express. The good types of ability which the other schools do not recognise as grounds for selection are, broadly, the æsthetic and the highly personal on the one hand, and the plain commonsensical on the other. They include also certain bad types of ability, such as lead on to gangsterism, brutal self-assertion, and crime. Yet this division is too sharp; for some, though not all, of the ability that turns the bad way is capable of being harnessed to good, if it be tackled aright at an early enough stage. The 'modern' school will have to be on the look-out for all these qualities, and will also have to provide for the needs of the large residue who have no special ability of any important kind, but are capable, fully as much as their abler contemporaries, of making good or bad citizens and of living, and causing others to live, happy or unhappy lives.

Already we have here a number of pointers to what the 'modern' school should set out to do. First, it should give those whose ability is æsthetic—and may show itself early or late—a chance which they often miss to-day. It should therefore allow plenty of room for music, drama, painting, drawing and the

plastic arts, not only for those who are capable of becoming artists, but for all who show faculties of artistic appreciation. That means, for practically all normal children in the earlier stages of school life, and for many more than are now believed capable of it at the later stages. The modern primary school should discover and pass on to the Art School those whose creative bent lies that way; but, beyond this, it should help a much larger number to enjoy the arts as they cannot without help. It must not, however, try to force art, beyond the simplest, on children who have been shown to have no liking for it; nor must it force the restricted notions of a particular school of artists, or all its work in the field of the arts will die an ignoble death.

Secondly, the 'modern' school must care much more for personality and for what I have called the 'personal' type. This type is very common, and is of immeasurable social value. It consists of those who make their monuments not in bronze or stone but in their influence on the lives of their children, their husbands or wives, their intimates, and their neighbours. It is a curiously unrecognised type, in our educational system, which indeed approaches caring for it only in making usually vain endeavours to interest in 'mothercraft' girls who have often at the time either no real appreciation of what motherhood means or all too much experience of ministering to a tribe of little brothers and sisters to want to hear any more about it at school—especially from spinsters. If we could but turn out those whose mission in life is to be lovingly helpful to their families, friends and neighbours even a little better equipped to offer their help in a more skilful way, what a stroke for human happiness that would be! And yet . . . this is psychology, is it not?—and "one can't teach psychology to children." Can't one, if it is the right sort of psychology, with no jargon, and based on a frank facing of real human situations, instead of covering them up? Why not? Because the teachers are not up to it? Can't we get teachers who are up to it, if we go out to seek such teachers, and do not demand that they shall be equipped with all the traditional qualities of teacherhood as well?

Common-sense Education

And then there is the plain, commonsensical type to be catered for. These are the boys and girls who, even if they are incapable of learning enough mathematics to become carpenters or engineers, or enough 'theory' to get on at a grammar school, are fully capable of doing a good job of work in a factory or an office, or of running a home and bringing up a family in a sensible and

righteous way. They want, in the main, plain answers to plain questions. They want to be taught to do competently everyday things which life will require them to do. They want to learn not to lose their heads when they have to fill up a form, not to find themselves helpless when the light fuses, or a pipe bursts, or the stuffing comes out of the old armchair, not to be gulled by insurance agents or canvassers with something to sell or votes to get, not to be ignorant of, or unable to explain frankly to their children, the facts of sex, to be able to write as well as to read English, so as to say what they want to say and not something different or unintelligible, and, above all else, not to be afraid of life.

This teaching people not to be afraid of life—and also not, out of reaction against their fears, to betake themselves to bravado or defiance of it—is indeed the gist of the whole matter. And it is vital to realise that the fear of life can be exorcised only by doing things and not by merely learning about them. That, and not any need for vocational preparation, is the reason why the modern school ought to occupy itself largely with doing, and not exclusively or mainly with books or even 'visual aids' and the rest of the paraphernalia of modernism in the field of educational equipment. Visual aids are important for the visualisers, who are a large proportion of the whole. Doing things, as well as learning about them, is important for everybody, and above all for the main body of those who will stay in the modern schools.

So the modern school must, at all costs, have space and equipment—fields to dig in, grow things in, play about in; bricks, mortar, timber and so on to build things with; means of dressing up, staging plays and playlets, making its own stage properties, painting its own scenery; means of making music; opportunities for 'field work,' botanical, historical, or social; contact with the life of its neighbourhood, so as to find out, by personal contacts, what it means to be a policeman or a bricklayer, or a bus-conductor, or a typist, or a waitress, or a nurse. There should be a procession of all sorts and conditions of men and women coming to the modern school to be catechised about their jobs, as well as visits from the school to where the jobs are being done.

What Sort of Teachers do We Want?

And now—what sort of masters and mistresses do we want for such schools? Some, no doubt, of the traditional kind; for not only the three 'R's' but much more of the traditional subjects will have their place. But we need also teachers who are good at doing all

sorts of practical things—and particularly lively-minded, practical people who enjoy turning their hands from one thing to another, and learning and teaching at the same time.

I have been writing as if all this were a novelty; but of course it is not. There are hundreds of teachers to-day in senior schools who have been doing, as far as they have been allowed, just the things I am saying ought to be done in the new modern schools. There has been fine, commonsensical, experimental work in many of these schools; and its results have been of the best. Cannot we find more teachers who can develop this type of teaching, if we look for them in the right places and are ready to give them the not very large amount of training which they will need in order to do the job well? I believe we can—in men and women who have come out of the services, and particularly out of service technical and educational units, but also in those released from war work in the munition factories, many of whom have picked up the art of teaching as part of their daily jobs.

Kinds of Secondary School

I have spoken so far as if it were an accepted fact that there are to be under the new system three kinds of secondary school—'grammar,' 'technical' and 'modern'—on the lines laid down before the war in the Spens Report. There is, however, nothing about this question in the Act of 1944, which leaves it open to the Local Authorities to group and arrange secondary education in their areas on whatever basis they think best. There is strong support in a number of quarters for what is called the 'multilateral' school, in which there would be separate 'sides' catering for pupils wanting different kinds of education. This solution demands considerably bigger schools than are needed under the Spens plan; for it amounts in effect to putting three separate schools into one. It is therefore difficult to apply without very extensive rebuilding, which will be hard to compass for some time to come, on large sites, which in many towns it is not at all easy to find. There is, however, a great deal to be said in favour of the 'multilateral' solution, where it can be applied, for two main reasons. In the first place, it will obviously make much simpler the transfer of pupils from one type of course to another where a mistake has been made in the original allocation; and in the second place it is the only sure way of achieving real parity between the different branches of secondary education. As against this, the disadvantages are that the larger the school the further many children will have to journey to it from home, and that it

might involve a fall in the standards of those existing schools, grammar or technical, which had to be merged into multilateral schools catering for pupils of all degrees of intelligence, and not selecting their pupils on grounds of special aptitude.

Neither of these objections has much force in the long run, and I feel no doubt that in the long run the multilateral school will become, not perhaps the universal type—for why aim at uniformity?—but the commonest variety. Given good transport and proper provision of school meals, it is no real hardship to pupils to have to go some distance to and from a secondary school (the primary school is, of course, quite another matter), any more than it is for students to travel in to a centrally placed University or Technical College or out to one placed in country surroundings. As for the fear of a fall in standards, there is no reason for it, provided that proper arrangements are made for organising the school in separate forms and 'sides' for pupils having different needs. Or rather, there is no reason in the long run; for in the short run there is the danger arising from the shortage of teachers. But what those who stress this danger are really claiming is that the grammar schools shall be allowed to staff themselves with the best qualified teachers, leaving the modern schools to do the best they can with those whom the grammar schools reject. This is obviously quite inconsistent with the idea of parity between the different branches of secondary education, and is in effect an attempt on the part of the 'cultured' to defend their monopoly and to perpetuate educational class-divisions.

The remaining argument often adduced against the multilateral school is that, from sheer size, it will result in bureaucracy, and will turn the headmaster into an administrator instead of a teacher. But there is no reason why this should happen if the school has its separate 'sides,' each under its own head, and if there is a board of governors to interpose between it and the local authority's passion for getting teachers to fill up forms.

I favour the multilateral school, and hope to see many experiments in this line in many areas. But I am not hopeful of getting this solution very widely adopted at present, mainly because the opposition of the grammar school advocates will be strongly reinforced by the immediate practical difficulties over sites and buildings. It will be the line of least resistance, wherever possible, to adapt and add on to existing schools; and few of these are on sites which are large enough adequately to house multilateral schools. Something will, no doubt, be done by federating schools of different types situated fairly near together; but this is obviously no more than a makeshift.

Technical Education

Technical education presents certain special problems. Hitherto junior technical schools have been carried on largely on the premises of Technical Colleges—an arrangement which has had evident advantages because it has enabled the premises to be fully used in the day as well as in the evening, has economised on expensive apparatus and has thus made better provision possible, and, last but not least, has encouraged the technical school pupil to regard it as natural and normal to go on to a higher technical course in the College. A big extension of technical education is obviously needed as a contribution to the higher efficiency and the democratisation of British industry; and it is of the greatest importance not to break the links between technical schools and Colleges. On the other hand, as the number of pupils taking technical courses at school is likely to be very much increased, it will be quite out of the question for the Technical Colleges to find room for more than a fraction of them—especially as it can reasonably be hoped that the extraordinarily high rates of wastage among those who start on technical courses will be greatly reduced in future. There is, accordingly, no real inconsistency between the proposal to create multilateral schools including a technical side and the desire to retain junior departments in connection with the Technical Colleges. There will be plenty of need for both; and it will be necessary to create special links between the Colleges and such technical schools or technical sides of multilateral schools as are not conducted on College premises.

Here I must put in a word about the character of technical education, which is often looked at askance by 'cultured' educationists on the ground that it is vocational, and therefore inferior. This view is nonsense. The basic curriculum in most existing technical schools (as distinct from specialised trade schools) is no more vocational than that of most grammar schools. The difference is that the technical school prepares for a different range of vocations, and centres its teaching on mathematics and basic science and their applications instead of classics or history or literature. It is no doubt highly important that those who make mathematics and science their basic subjects should also learn some literature and history; but is it less important for 'classics' and historians to learn some mathematics and some science? Moreover, the question is not only *what* subjects are to be taught, but also *in what* spirit they are to be taught. Mathematics and science can be taught as humanistically as history or classics; and, if this is by no means always done, are not classics and history often taught as bone-dry disciplines, made as unhelpful as possible

towards the pupil's mastery of the world of to-day? The most vital thing of all is to break down the supposed opposition between 'technical' and 'cultural,' and to establish it as a recognised aim of all types of education to enable every pupil to express himself clearly and unambiguously in good, simple English.

Towards Democracy in the Schools

Finally, I come back to my essential point. We professed, in the Act of 1944, to be giving expression to the principles of educational democracy. So to a certain extent we were; but the democratic elements in the Act can easily be pushed aside if it is administered in an undemocratic spirit. Let us consider afresh for a moment what democracy implies in the field of education. It implies a real attempt to discover the aptitudes of every child—not merely certain aptitudes for culture or technical prowess but all the aptitudes that are discoverable—and to give every child the best possible chance of developing these aptitudes except where they are definitely evil or anti-social. But democracy in education implies more than this. It implies also the living together as social equals of boys and girls differing greatly not only in their specific aptitudes but also in human quality in the widest sense in which such quality can be assessed. It would be not democracy, but the antithesis of it, to devise cunning ways of identifying the able, and then to give the able all the chances and segregate them from the rest—to train the able in one compartment for leadership and the rest in another as sheep. To say this is not to deny the immense importance of leadership in a democracy; but the essence of democratic leadership is that it is not segregated or selected from above, but self-selecting out of a community living on terms of social equality. That is, in effect, the fundamental case in favour of the multilateral school, as a microcosm of a democratic community and the right foundation for a spirit of democratic citizenship.

Curiously enough, the defenders of the 'public' school system half-recognise this, when they plead strongly against any attempt to limit entry to these schools to the 'clever' boys. They maintain, rightly, that their schools will give a better preparation for life if they include a fair proportion of the 'not-clever'; and they point out that, very often, the 'not-clever' do just as well as the 'clever' in after-life. They resist assimilation to the state secondary schools on the ground that these schools are limited to cleverish pupils; and one could not help sympathising with them if they were not apt to say, almost in the same breath, that these same state scholarship boys are not 'clever' enough, and that assimilation would lower 'public' school standards. What they really mean is,

of course, that they exist to educate a governing class, and that governing classes would not last long if they consisted exclusively of 'clever' people. The 'public' schools' case is not, after all, a case for democracy, but a case for a segregated *élite* not based exclusively on intellect—that is, for a governing class stiffened with a suitable proportion of toughs and men of push and go, on the well-established principle of 'I push, you go.'

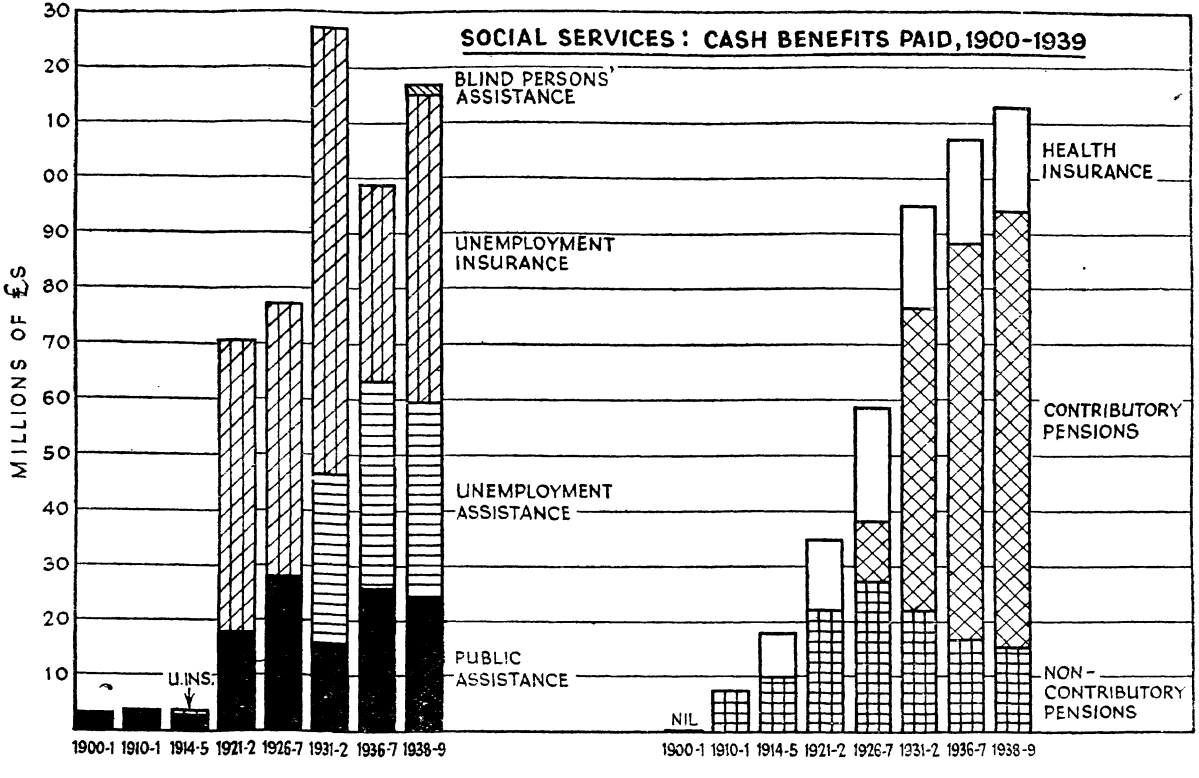
Let us not disguise from ourselves the plain fact that educational democracy of the kind here envisaged as against the 'public' school ideal cannot be at all easy to bring into existence. Even if we assure every child of good nutrition and of a home not prevented by sheer poverty from being a good home, of the best primary schooling we can devise, and of the most skilled help that can be given in finding out what sort of further education is most suitable in each individual case, there will remain the inescapable fact of a large mass of sheer inferiority, not only in intellect and power to connect and make any sort of coherent plan of living, but also in capacity for service to the community either in daily labour or in the affairs of citizenship. This will remain, as a sheer fact of heredity and human nature, even when we have learnt to value and cultivate many human qualities which our educational system at present almost wholly ignores—above all, besides the æsthetic, what I have called the 'personal' qualities of human understanding, helpfulness, and creativeness in the realm of personal relations. The idea of a democracy in which all the members will be well equipped for forming political and social judgments, or keenly interested in political and social affairs, is a mirage. What is practicable is a great enlargement, by diminishing the existing waste of aptitudes, both in the proportion of well-equipped and active citizens, and in the social effectiveness of those who, whether or not they are well-equipped in this sense, have the aptitude to pull a beneficent social weight in other spheres of communal living, including the neglected spheres of popular artistic expression and of everyday personal relations.

CHAPTER VI

SOCIAL SECURITY, INCLUDING CHILD WELFARE AND THE SOCIAL SERVICES

THE BEVERIDGE REPORT on Social Insurance, issued in 1942, is one of the great social documents of our time. Sir William (now Lord) Beveridge, its sole author, was given an unique chance, and he made full use of it. As a rule, the reports of government committees embody compromises with which no one is entirely satisfied. They are the work of groups of persons of widely different views, who either divide themselves into a majority and a minority or present an unanimous report by leaving out a great deal on which they are unable to agree. Even minority and majority reports usually cover up or suppress differences among those who sign them; and agreed reports take refuge at difficult points in phrases that can be interpreted in more than one way. The Beveridge Report was unique, in that the committee from which it emerged had but one member entitled to draw it up—Sir William Beveridge himself. All the other members were Civil Servants, connected with one or another of the government departments administering social services. They could advise; but as Civil Servants they could not publicly express opinions, or take part in drawing up the Report. The Beveridge Report was accordingly a one-man affair; and the man who wrote it was free to say exactly what he pleased, or considered expedient.

This, I fancy, was not at all what the Government wanted by the time the Report was being written. Sir William Beveridge was appointed chairman of a committee of Civil Servants by Mr. Arthur Greenwood at a time when reconstruction problems were not being seriously thought about by the Government, and no great thought was given to the implications of the appointment. It does not seem even to have been realised at the outset that, if the Report were to be made public, Civil Servants would not be able to take part in drawing it up, or that, in effect, Sir William was being given a free hand. Indeed, I think, though I do not know, that Sir William himself forced this issue, and that one great reason why he was boycotted so severely afterwards in


SOCIAL SERVICES: CASH BENEFITS PAID, 1900-1939
MILLIONS OF £'S
30
20
10
00
90
80
70
60
50
40
30
20
10
BLIND PERSONS' ASSISTANCE
UNEMPLOYMENT INSURANCE
UNEMPLOYMENT ASSISTANCE
PUBLIC ASSISTANCE
U.INS.
1900-1 1910-1 1914-5 1921-2 1926-7 1931-2 1936-7 1938-9
HEALTH INSURANCE
CONTRIBUTORY PENSIONS
NON-CONTRIBUTORY PENSIONS
NIL
1900-1 1910-1 1914-5 1921-2 1926-7 1931-2 1936-7 1938-9

government quarters was that he was considered to have stolen a march on the Government and the Civil Service by insisting on reporting what he wanted to report, and not what they would have liked him to report.

At all events, from the time when the Report was submitted, Sir William Beveridge was disliked and boycotted in official quarters; and, though the pressure of public opinion compelled the Coalition Government to accept most of his recommendations, he was not consulted at all in working them out into the detailed plans which the Government promised to bring before Parliament. There was a prodigiously long delay after the issue of the Report before the Government produced even a White Paper outlining its own proposals (from November, 1942, to September, 1944); and right up to the time when the Churchill Government fell in the middle of 1945, not one of the Bills needed to carry these proposals into effect had been even produced, much less debated or made law.

The reasons for this long delay were mainly two. In the first place, the Beveridge Plan, even in the modified form in which the Government had accepted it, involved spending a great deal of money; and there were not wanting critics on the Tory side who asserted that Great Britain could not afford it. These same critics in many cases also disliked the plan, because they thought that it involved too much state help to the poor and the workers, and might "undermine the incentives to labour" or unduly strengthen the hands of the Trade Unions in wage-bargaining, or, more generally, mollycoddle the people, who ought to maintain themselves by their own efforts. But side by side with this political opposition, which for the most part did not come out into the open, there was another opposition which disliked the Report, not because it gave too much, but rather because it upset the settled departmental habits and traditions of the Civil Service—for example, by proposing to set up a new Ministry of Social Security to take over the administration of most of the social services, and by treating lightly the 'divine right' of each government department to go on for ever in charge of any service which has been within its province in the past. This opposition too worked necessarily behind the scenes; but I think it was mainly responsible for the fact that the new Ministry of National Insurance (not Social Security) which was set up in 1944 was designed to have much narrower functions than Sir William Beveridge had proposed for the Ministry of Social Security envisaged in his Report.

The Five Giants

The Beveridge Report was a challenging social document, above all else, because of the principles and assumptions on which it was based. Sir William laid down explicitly that it should be the State's business to give to all its citizens a high degree of security. He envisaged his Report on Social Insurance and Allied Services as "one part only of a comprehensive policy of social progress." He wrote at the very beginning: "Social Insurance fully developed may provide income security: it is an attack upon Want. But Want is one only of five giants on the road of reconstruction and in some ways the easiest to attack. The others are Disease, Ignorance, Squalor and Idleness." His Report not only embodied a comprehensive plan for preventing those forms of Want which can be prevented by the provision of social insurance or other cash benefits to supplement private earnings, but also rested on the assumption that the Government's reconstruction policy should and must include an equally vigorous attack on the other four Giants.

Of these other four, he himself attacked Idleness in the subsequent Report on 'Full Employment in a Free Society' which I have discussed in an earlier section of this book. Disease he attacked in his first Report, when he made the establishment of a comprehensive Public Health Service, including all required forms of medical attention and treatment, together with the prevention of unemployment and the provision of Children's Allowances, an assumption underlying his plan for the development of Social Insurance. Ignorance he did not attack specifically; but the Education Act of 1944, considered in the preceding chapter, must be regarded as the Government's part-answer to his general challenge on this issue. The fifth Giant, Squalor, does not lend himself so readily to direct attack. He will be defeated mainly by the defeat of his allies, Want, Ignorance and Disease, and by the carrying through of a comprehensive housing and planning programme.

The Government and the Beveridge Plan

After the issue of the Beveridge Report the Government, without invoking the aid of Sir William or of any other chairman, put forward its own proposals for the establishment of a generally available Public Health Service, only to find itself involved in a clamorous controversy with the doctors, of which something will have to be said later in this chapter. The Government also promised to introduce its long-deferred Bill establishing Children's Allowances, to which it was indeed more than half

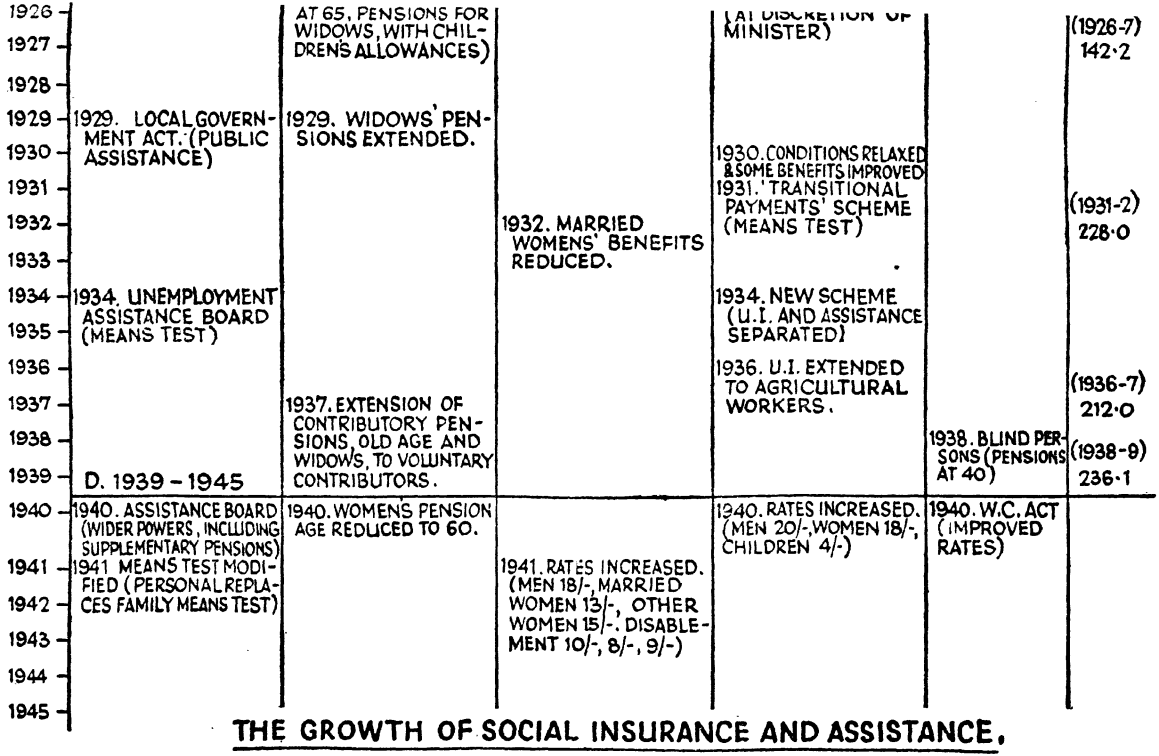
committed even before the Beveridge Report appeared; but its proposals on this matter, as we have seen, fell a long way short of what Sir William had recommended. The Coalition Government also took one important step towards filling an unaccountable gap in Sir William's general diagnosis. His Social Insurance plan was designed to prevent, or at least to mitigate, want arising from unemployment, from sickness or accident, from old age, and from the inadequacy of normal wages to support a large family; but he made—presumably because he regarded it as beyond his terms of reference—no proposal for dealing with those cases in which men or women in work, in health, and in the prime of life cannot earn a living wage. If we are to prevent want, we must clearly set out to prevent inadequate incomes among the employed as well as among the unemployed, the sick, the disabled, and the aged; and though the provision of adequate Children's Allowances will evidently help greatly towards this end, it will not be enough, even if the allowances are made much more generous than they are at present. We must accordingly regard Mr. Ernest Bevin's Wage Councils Act of 1945 as yet another instalment of the policy needed for preventing want.[1]

The Implications of Social Security

Despite this omission, Sir William Beveridge's approach to the general question of Social Security was revolutionary in what it implied. Just as the acceptance by the State of the responsibility of finding jobs for all who need them has revolutionary implications for the conduct of industry and involves a flat denial of the main presuppositions of *laissez-faire* capitalism, so the acceptance of public responsibility for protecting every citizen against want has implications hardly less far-reaching. For what becomes, under these conditions, of the contention that men are too lazy or unprincipled to work unless they are driven on by the whip of starvation, or of the conclusion that industry cannot be carried on unless those who work in it have continually before their eyes the threat of the sack? The change of attitude has come about largely because even those who think there is "something in" such contentions are for the most part no longer prepared to defend outright the view that if a man fails through slackness to earn a living wage—to say nothing of his failing from any other cause—it is right and proper, in the name of the sanctity of family life, that his wife and children should starve with him. The opinion of to-day credits women and children with individual claims and rights of their own. It is not so ready as its forerunners to say that

[1] See p. 585.

	POOR LAWS, PUBLIC ASSISTANCE, & ASSISTANCE BOARD	OLD AGE AND WIDOWS' PENSIONS	HEALTH INSURANCE	UNEMPLOYMENT INSURANCE	OTHER SCHEMES	CASH BENEFITS PAID-ALL SCHEMES £M.
	A. EXISTING BEFORE 1906.					
	POOR LAWS (ACTS OF 1601, 1834, ETC.)				WORKMEN'S COMPENSATION (ACTS OF 1897, INDUSTRY, AND 1900, AGRICULTURE)	(1900-1) 3·3
	B. 1906 - 1918	1908. OLD AGE PENSIONS ACT (NON-CONTRIBUTORY BUT SUBJECT TO MEANS TEST. RATE 5/-)	1911. NATIONAL (HEALTH) INSURANCE ACT, PT. I. (CONTRIBUTORY, RATES MEN 10/-, WOMEN 7/6, DISABLEMENT 5/-)	1911. NATIONAL INSURANCE ACT, PT. II. (SELECTED TRADES ONLY: CONTRIBUTORY RATE 7/-)	1906. W.C. ACT. (EXTENSION TO MOST OCCUPATIONS)	(1910-1) 13·7
				1916. EXTENSION TO MUNITION WORKERS	1917. W.C. RATES INCREASED.	(1914-5) 25·2
1919	C. 1919 - 1939		1919. RATES RAISED TO 15/-, 12/- AND 7/6.	1919. RATE RAISED TO 11/-	1919. W.C. RATES INCREASED.	
1920		1920. O.A.P. RAISED TO 10/-		1920. U.I. ACT. (SCHEME EXTENDED TO NEARLY ALL WORKERS. RATES MEN 15/-, WOMEN 12/-)	1920. BLIND PERSONS' ACT. (PENSION AT 50)	
1921				1921. DEPENDANTS' ALLOWANCES INTRODUCED. EXTENDED BENEFITS ALLOWED.		(1921-2) 111·1
1922						
1923					1923. W.C. ACT (IMPROVED CONDITIONS AND EXTENSION TO	
1924				1924. EXTENDED BENEFITS GIVEN AS OF RIGHT.		



THE GROWTH OF SOCIAL INSURANCE AND ASSISTANCE.

the sins of the fathers shall be visited upon the children, or even upon the mothers, or so sure that family life thrives best when women and children are offered up as victims to its sanctity.

The Growth of the Social Services

The public social services, as they existed in 1939, were made up of the old Poor Law, which went back in something like its existing form right to the days of Queen Elizabeth, and of a number of quite recent special services which had grown up since the enactment of the Old Age Pensions Act in 1908 and of the National Insurance Act in 1911. On the fringe lay Workmen's Compensation, which was not a public service in the strict sense, but had grown out of the ancient common law rule of 'employers' liability' as modified and extended by statute law. Besides the various services provided under the Poor Laws, the public social services as they existed in 1939 included the following services:

(*a*) *Non-contributory Old Age Pensions*, instituted by the Liberal Government in 1908, at what seems to-day the extraordinarily low rate of 5*s*. a week for persons over 70 years old. The pensions were subject to a Means Test and tapered away to nothing when the aged person had other means. No pension at all was payable when such means exceeded £31 10*s*. a year. In 1919 the maximum pension was raised to 10*s*., but only for those whose other means did not exceed £26 5*s*. a year; and no pension was payable when other means were more than £49 17*s*. 6*d*. In 1924 the Means Test was substantially modified, by a provision that income up to £38 a year (or £79 for husband and wife) should be disregarded in assessing the pension. The Act of 1924, passed by the first Labour Government, also removed the disqualification from receipt of pensions of persons who were getting poor relief. Further developments of the non-contributory scheme were checked by the introduction of *contributory Old Age Pensions* in 1925; and when it became imperative in the course of the war to make improved provision for old people this was done, not by amending the Act of 1908, but by instituting a scheme of *Supplementary Pensions* under the Assistance Board (see p. 554).

(*b*) *National Health Insurance*, instituted by the Liberal Government under Part I of the National Insurance Act of 1911. This was the Act which started the contributory system, by providing for compulsory deductions from the wages of employed persons and for compulsory contributions from their employers, the proceeds being paid, *plus* a small state subvention, to an Insurance Fund. The Act ensured to the persons covered by it, but not to their dependants, medical attention and treatment by 'panel'

doctors, who were paid on a capitation basis, but it did not cover specialist or hospital services, except in the case of tuberculosis, for which special provision was made. The Act also instituted a system of sickness benefits at the rate of 10*s.* a week for men and 7*s.* 6*d.* for women, payable for limited periods, and of disablement benefits of unlimited duration, following on the exhaustion of the right to sickness benefits, at the reduced rate of 5*s.* a week. The Act was administered mainly through Approved Societies formed under the auspices of Friendly Societies, Trade Unions, Collecting Societies, or Insurance Companies; and these Societies, which received fixed payments from the Fund, were allowed to provide, when they could afford to do so, 'additional' benefits, including medical treatment for dependants, dental treatment, and other special services. There arose in practice great inequalities between the benefits provided by different societies in return for the flat weekly contribution; but the mass of insured workers showed little discrimination in selecting an Approved Society. In 1919 the rates of sickness benefit were raised to 15*s.* for men and 12*s.* for women, and disablement benefit was increased to 7*s.* 6*d.* Thereafter only minor changes were made in the scheme up to 1941, except a reduction in married women's benefits in the course of the 'economy' campaign of 1932. This discrimination was preserved in 1941, when rates were again raised for sickness to 18*s.* for men, 13*s.* for married women, and 15*s.* for other women, and for disablement to 10*s.*, 8*s.*, and 9*s.* The Act of 1911 also instituted a small maternity benefit for insured women, and enabled certain classes of persons not compulsorily insured to qualify for some of the benefits by becoming 'voluntary contributors.' This latter concession was not extended to married women.

The State throughout met only a small proportion of the total cost of Health Insurance, which was paid for mainly out of the contributions of workers and employers. There were no such large state subsidies in this case as there were to the costs of unemployment and pensions insurance. Moreover, rates of benefit remained low, and there were no allowances for dependants. The reason for these inadequacies was largely that Government after Government was unwilling to incur the hostility of Insurance Companies and other agencies by trenching on the field covered by voluntary insurance apart from the state scheme. This reluctance also prevented the institution of funeral benefit as a part of the state service.

(*c*) *Unemployment Insurance*, first instituted for a small group of selected trades (chiefly building, engineering and shipbuilding) under Part II of the National Insurance Act of 1911, with a

supplementary provision allowing state subsidies to voluntary schemes run under the auspices of Trade Unions or Friendly Societies. Benefits under the 1911 Act were at the low rate of 7*s.* a week. Munition workers were brought in under an Act of 1916; and in 1920 Unemployment Insurance was extended to workers in the great majority of trades and occupations, the largest exceptions being agriculture and domestic service. Agriculture was brought in, under a special scheme, only in 1936. Domestic servants remained outside throughout. An Act of 1919 raised the rate of benefit to 11*s.*, and the Act of 1920 fixed rates at 15*s.* for men and 12*s.* for women. In 1921 dependants' benefits, at low rates, were added, as a consequence of the conditions caused by the post-war slump. Thereafter the scheme underwent frequent changes. Up to 1921 benefits were payable only for strictly limited periods, dependent on the number of contributions previously paid. The slump led to a relaxation of these conditions, and 'extended' benefit was introduced in 1921, but was made payable not as of right but only at the discretion of the Minister of Labour in each case. In 1924 the first Labour Government made 'extended' benefit a right; but this reform was reversed by its successor, which introduced in 1925–6 a system of 'transitional' benefits payable only at the Minister's discretion. There followed an acute controversy over disqualifications of applicants said to be "not genuinely seeking work." In 1930 the second Labour Government again relaxed the conditions, and also transferred the cost of what was by then called 'uncovenanted' benefit to the State from the Insurance Fund, which had been sinking further and further into debt. The fall of the Labour Government during the financial crisis of 1931 was followed under the National Government by drastic changes, including the institution of a new system of 'transitional payments' subject to a family Means Test, which was widely resented. This was followed in 1934 by the division of the scheme into two. Unemployment Insurance, on a strictly contributory basis, was separated from Unemployment Assistance, which was thereafter paid for by the Exchequer; and the latter was placed in the hands of a new body, the Unemployment Assistance Board, which was to continue to administer a Means Test and was also gradually to take over from the Public Assistance (Poor Law) authorities most forms of relief to able-bodied persons. The first scales issued by the U.A.B. led to so much resentment that they had to be withdrawn, and improved scales substituted; but the family Means Test was retained in a modified form until 1941, when, under pressure from the Labour Ministers in the Coalition Government, a personal Means Test

was at length put in its place. Before this, in 1940, rates of benefit under the insurance scheme had been raised to 20*s.* for men, and 18*s.* for women, with children's allowance at 4*s.* for each child.

Under the Acts of 1911 and 1920, Trade Unions, where they had private schemes of their own, were allowed to administer state unemployment benefit on behalf of their members. The severe and prolonged unemployment of the inter-war period, however, made many Unions unable to maintain their own schemes, and there were also difficulties over the conditions of administration of the State schemes. Consequently, the scheme came to be administered for the great majority of workers directly by the State. Moreover, the idea, entertained at the start, that industries might be allowed to contract out of the general scheme by setting up schemes of their own, providing for the maintenance of their own unemployed, was dropped when it became plain that the effect would be to encourage industries with little unemployment to contract out, leaving the general scheme to bear all the heavier liabilities.

(*d*) *Pensions for Blind Persons*, instituted under the Blind Persons Act of 1920, on a non-contributory basis. These pensions were made payable at the age of 50, until in 1938 the age was brought down to 40. The Act of 1938 also required local authorities to make provision, apart from the general system of Public Assistance, for other forms of aid to blind persons and their dependants.

(*e*) *Contributory Pensions for Widows, Orphans and Elderly Persons*, instituted under the Widows', Orphans', and Old Age Contributory Pensions Act of 1925. This Act provided old age pensions of 10*s.* a week at 65 to persons insured under the Health Insurance Scheme, and similiar pensions to their wives when the husbands reached the age of 65. It also provided 10*s.* a week and dependants' allowances for young children to widows of insured men dying after 1925, and 7*s.* 6*d.* a week for orphans. Widows' Pensions were extended in 1929 to widows of 55 or over whose husbands had died before 1926; and in 1937 there was a further extension on voluntary lines to widows of persons who were not covered by health insurance. Finally, in 1940, the general age for old age pensions was brought down to 60 in the case of women, the age for men being left unchanged at 65.

(*f*) *Unemployment Assistance*, introduced in 1934 in lieu of 'uncovenanted' benefit or 'transitional' payments under the Unemployment Insurance Acts. Unemployment Assistance, as we have seen, was given on a national scale laid down by the Unemployment Assistance Board, subject to a Means Test (see p. 552). At the outset it was limited to persons who had run out

of 'covenanted' insurance benefits; but in 1937 a number of other persons were transferred from Public Assistance to Unemployment Assistance, on the ground that they were persons seeking employment and normally living by wages. The scales of Unemployment Assistance are too complicated to be described here. The revised scale of 1936 provided basic rates of 16*s.* for a man, 24*s.* for a man and wife, 15*s.* for a woman living alone, and varying rates from 3*s.* to 8*s.* for children and adolescents, and of 10*s.* to 8*s.* for adult dependants.

(*g*) *Supplementary Pensions*, introduced in 1940 for old age pensioners and widows over 60, and placed under the administration of the Unemployment Assistance Board, which then became the Assistance Board. The Assistance Board also acquired a number of new wartime functions connected with relief of the needs of bombed-out and evacuated persons; but it does not seem necessary to describe these purely temporary arrangements.

(*h*) This account would be seriously incomplete if nothing were said of the changes introduced into *the Poor Law system* by the Local Government Act of 1929. This Act abolished the separate Boards of Guardians which had administered poor relief since 1834, and handed their functions over to the County and County Borough Councils. Poor Relief was renamed *Public Assistance*, and was thereafter administered by Public Assistance Committees appointed by the Councils; but the basis remained local, with local differences in the rates and conditions according to the varying views of the Councils in different areas. There was no introduction of a uniform national system like that administered by the Unemployment Assistance Board, though in practice there was some tendency to assimilate scales and conditions under the influence of the Ministry of Health. The Act of 1929 was also important in many other fields, as it transferred to the local Councils a wide range of separate services (e.g. poor law hospitals and infirmaries) previously conducted under the Boards of Guardians.

(*i*) On the margin of the public social services stands the system of *Workmen's Compensation*, inaugurated in 1897 as a development of the principle of employers' liability. At common law, apart from statute, an employed person can sue his employer for damages caused by the employer's negligence. Up to 1880 there was no right to sue where the negligence was that of a fellow employee, and not of the employer personally, such actions being barred by the common law doctrine of 'common employment.' The Employers' Liability Act of 1880 removed this barrier, but left recovery of damages open to the workman only when his

injury was due to negligence on the part of the employer or his agent, who might be a fellow employee. The Workmen's Compensation Act of 1897 introduced the quite new principle of a right to compensation in respect of accidents arising out of or in the course of the workman's employment, whether there was any question of negligence or not. The Act of 1897 applied only to a prescribed range of dangerous industries, including mines, factories, railways, and the main types of building and construction. It was extended to agriculture in 1900, and to practically all employments, except home-workers, in 1906, but non-manual workers earning more than £250 a year were excluded. This income limit was raised in 1923 and again in 1941. There was, however, strictly speaking, no state scheme. The injured workman was left to seek compensation in the county courts, which thereafter spent an increasing proportion of their time in dealing with compensation cases. Compensation could take the form either of a weekly payment of limited amount or of a lump sum, and there was increasing pressure from the insurance companies, which in practice took over the employer's liability, to get lump sum payments accepted in cases of serious disability. Weekly payments were originally limited to a maximum of £1 or 50 per cent. of normal wages; but the maximum was raised by 25 per cent. in 1917 and by a further 50 per cent. to a total rise of 75 per cent. in 1919. In 1923 the maximum was fixed at 30*s*., and a scale was fixed allowing payments up to 75 per cent. of normal wages for the lowest-paid workers. In 1940 a supplementary allowance of 5*s*. was added, and also a children's allowance of 4*s*. each for the first two children and 3*s*. for others. In case of death the original maximum payment was three years' wages up to a total of £300. The Act of 1923 provided for additional allowances in case of death for dependants, subject to an all-in maximum of £600. In general, weekly payments made before death could be deducted from the sum payable at death. There was no connection at all between the workmen's compensation scheme and the rest of the social services; nor did the State assume any responsibility for ensuring payment in the event of the employer's default.

(*j*) In addition to these public or quasi-public social services, there existed a large body of insurance and charitable services conducted by private bodies. Some Trade Unions paid unemployment benefits in addition to those under the state scheme; and a larger number provided sickness benefits and death benefits. A few provided superannuation payments; but all these services, except a small funeral benefit, were usually within the reach only

of skilled workers who could afford a relatively high Trade Union contribution of 1*s.* to 2*s.* a week. Friendly Societies, such as the Oddfellows, Druids and Foresters, provided sickness and death benefits on a larger scale, but not unemployment benefits. Collecting Societies and Insurance Companies did a still larger business in funeral insurance, endowment policies, and other types of 'industrial insurance.' Commercially conducted insurance usually involves both very high administrative costs, because of the system of weekly collections by agents working from door to door, and of the large proportion of 'lapsed' policies, on which payments are never completed. In 1939 there were no fewer than 103,000,000 current industrial insurance policies—more than two for every man, woman and child in the country—and the premiums paid amounted to £74,000,000, out of which £24,000,000 went on management expenses apart from profits. There were in addition a number of insurance schemes run by firms for their workpeople, usually on a contributory basis with financial aid from the firms concerned.

(*k*) *The Charity Organisation Society* and a number of other charitable agencies paid out sums in relief of distress, usually on a basis of 'case-work'—that is, study of the position of each applicant with a view to helping those who were regarded as 'deserving' and especially those whom some help might render better able to help themselves. Many more specialised charitable agencies existed to help particular classes of persons (e.g. discharged soldiers, discharged prisoners, orphans, Jews), or those suffering from some special disability (the blind, the deaf, those needing artificial limbs, and so on). Some of these special bodies received grant-aid from the State or from local authorities; and a number of them worked in a sort of partnership with the statutory agencies. They are much too numerous and diverse to be described here. In many cases they gave help chiefly in kind, or by granting money towards the purchase of necessary apparatus or the cost of special treatment.

(*l*) *The voluntary hospitals* stood in a special position. They had been financed to a growing extent in recent years not by donations from the wealthy but by weekly subscriptions from working people to Hospital Funds or Associations. There were about ten million contributors to such schemes, representing with their dependants at least half the total population. About half the total expenses of the voluntary hospitals were met in 1939 out of payments from patients or potential patients, either directly or on a contributory basis.

The Beveridge Plan and the Government's Proposals Outlined

The question before Sir William Beveridge was how best to build on the foundation of this haphazard collection of social services, gradually created over a long period, but entirely unco-ordinated, a comprehensive plan of 'social security' against want due to any of the common contingencies of modern life. It was obvious that the existing services left a great many gaps and were at most points entirely inadequate even where they did make some provision. There was no logic about them—for example, there was no good reason why an insured workman should get much less when he was sick than when he was unemployed, or why a workman who worked not for an employer but 'on his own' should be left out. It was absurd that wives and children of insured men were excluded from health insurance, that persons insured with different Approved Societies got widely varying benefits in return for the same contributions, that there were several different Means Tests, administered on quite different lines, and several varying scales of children's allowances. It was plain that the funeral benefits provided by insurance companies and collecting societies were indefensibly costly to the insured, and amounted to a 'ramp' for the benefit of investors or insurance agents, or both. It was no less plain that workmen's compensation arrangements were most unfair, both because the sums payable were too low and because those who needed speedy help were subject to unfair pressure to accept lump sums in place of weekly payments, which often involved long delays. It was clearly ridiculous to have several different government departments administering separate insurance schemes, to have some schemes contributory and some not, and to have the State financing some schemes fairly generously, some in most niggardly fashion, and some not at all.

Sir William Beveridge's starting point was Social Insurance, and he had not a free mandate to range over the entire field of social service. For example, though it was evident that any satisfactory scheme must embody a comprehensive provision for medical service, on a much wider foundation than that of the medical part of National Health Insurance, it was hardly within Sir William's mandate to say how such a service ought to be organised or to enter into the many complications that were bound to arise in connection with it over the position of the doctors, of the voluntary hospitals, and of the local authorities. Sir William in fact did no more (though that indeed was much) than make the establishment of a comprehensive system of medical attention for the whole population one of the basic

assumptions of his Report, leaving the details to be worked out elsewhere. In the case of children's allowances, which also fell outside the field of social insurance, as it had already been practically decided to meet their cost out of the proceeds of general taxation, Sir William could not limit himself so much, as it was impossible to work out appropriate scales for other benefits without making some definite assumption about the sums that were to be paid out in children's allowances to households of various sizes. Accordingly, he did discuss at what level children's allowances should be fixed; and this involved taking into account the extent of the 'allowances' in kind that the State was proposing to provide—school milk, school meals, and anything else that it might be decided to supply directly instead of leaving it to the parents' discretion.

Children's Allowances

The conclusion which Sir William reached on this question was that the ordinary rates of wages ought to be fixed at a level adequate to provide for the maintenance of the first child and that accordingly for those who were in good health and in employment allowances should be payable only for the second and subsequent children. On the other hand, when the parent who normally earned the child's keep was ill or unemployed, the allowance should be payable for the first child as well. The rate proposed by Sir William Beveridge was 8*s.* a week for each child, in addition to the services to be provided in kind. This was on the assumption, common to all the proposals made in his Report, of a price-level 25 per cent. higher than that of the pre-war period, and Sir William contemplated that the actual rates would be adjusted to fit the post-war cost of living, whatever it might turn out to be.

As against this figure of 8*s.*, related to a 25 per cent. rise in prices, the Coalition Government in its proposals of September, 1944, promised only 5*s.*, without any provision for adjustment to offset increased prices and despite the fact that the cost of living had already risen considerably since the preparation of the Beveridge Report. The Government's spokesmen argued that eventually allowances in kind would reach a value of about 2*s.* 6*d.* a week, and claimed that the Beveridge rates were higher than the Exchequer could be asked to afford. It was pertinently pointed out by the Government's critics both that it would be a long time before the proposed services in kind could be got into full operation, and that the rates proposed contrasted most unfavourably with the 10*s.* allowed to children of serving soldiers

and were plainly inadequate to meet the expense of keeping a child in reasonable health and comfort.

The main part of the Beveridge Report was concerned with three groups of questions—maintenance of the sick, the temporarily incapacitated, and the unemployed; provision for old age; and compensation for industrial injuries and diseases, or the substitution for it of some alternative system of maintenance. Working on the assumptions that there would be a comprehensive public medical service and that the numbers of the unemployed—and especially of the long-term unemployed—would be greatly reduced by the adoption of a policy of 'Full Employment,' Sir William Beveridge had to deal mainly with the question of the amounts and conditions of the cash incomes to be publicly provided for the sick, the unemployed, the injured, and the retired, and with the extent to which the potential recipients should be called upon to contribute compulsorily to the cost of these services. His object was, as far as possible, to fuse all the separate schemes previously in existence into a single comprehensive scheme, which would go as far as was practicable towards the prevention of all forms of want except those arising from unduly low wages or sheer refusal to accept reasonable conditions for the receipt of public help.

The Need for Uniform Benefits

The first and most obvious problem to tackle was that of the entirely irrational difference between the benefits provided for the sick and for the unemployed. It was clearly indefensible that there should be no dependants' benefits under National Health Insurance, whereas they had been provided under Unemployment Insurance since 1921. It was absurd that the State should bear a much smaller proportion of the cost of maintenance in sickness than in unemployment; and it was profoundly unsatisfactory that both types of benefit should be limited in duration, so that the long-term unemployed should be driven to the Unemployment Assistance Board and those suffering from protracted illness to the Public Assistance Committee. It could, no doubt, be argued that it was of the essence of an *insurance* scheme that its benefits should be limited in duration and that on no other condition could its 'actuarial' character be preserved. But this principle, though implicit no doubt in schemes of voluntary insurance, has no real application to a compulsory scheme in which all workers have to take part whether it is worth their while or not. The worker who is in a safe job for life evidently loses by paying a weekly contribution towards 'insurance' against unemployment: what he pays is

not really an insurance contribution but a tax. The raising of part of the cost of social 'insurance' from contributions is merely a way of spreading the incidence of the taxation differently: it ensures that to a substantial extent the working classes shall pay directly for one another's social services, instead of leaving them to be financed out of general taxation. Whether this bears more or less unfairly on the poor depends of course on what the general taxes are—how low down the scale income tax is levied, what proportion of total revenue is drawn from indirect taxes on consumption, and so on. But it is nonsense to suggest that a state scheme cannot provide benefits unlimited in duration, merely because a part of the funds is raised by weekly contributions levied on employers and employed.

Duration of Benefit and the Means Test

Accordingly, Sir William Beveridge proposed that benefits for both unemployment and sickness or other disability should be unlimited in duration—subject in the case of disability to proper medical evidence and in the case of the unemployed to the acceptance under reasonable safeguards of the need to accept a job in a new occupation. In order to make these safeguards work constructively, and not as mere means of checking abuses, Sir William proposed that there should be provision for making benefit, after a period, conditional in the case of those out of work on the acceptance of training for an alternative type of job, and in the case of the sick or incapacitated on their undertaking any prescribed courses or measures of rehabilitation. Training Benefit was, indeed, not to be limited under the Beveridge Plan to the unemployed: it was to be available for all who needed it. The Coalition Government, in its social security proposals, retained Training Allowances for the unemployed, but not as a condition of the continuance of benefit. As against this, it dropped all specific provision for rehabilitation, presumably leaving that matter to be dealt with in connection with the proposed Health Service.

What was much more serious was that the Government, in its White Paper of 1944, refused to make either Unemployment Benefit or Sickness Benefit unlimited in duration. In relation to Unemployment Insurance, this meant that workers who had exhausted their limited right to benefit (30 weeks was the limit proposed) would still have to go to the Assistance Board, where the Means Test would continue to be applied. In relation to sickness, it meant that after a much longer period (3 years was the proposed maximum), a sick or incapacitated person would be

transferred to a new Invalidity Benefit at a substantially lower rate, though it is difficult to see why his needs should have been supposed to decrease with the prolongation of his incapacity. What the Coalition Government was in effect proposing was that the incapacitated worker should be pensioned off after three years, at a rate equal to that which it was proposed to pay to persons retiring in old age. As we shall see, the rates which it put forward for such old age pensioners were very inadequate; and it was this inadequacy that led to the anomalous proposal that the worker suffering from prolonged illness should have his benefit reduced. There was, however, to be no time-limit in respect of this reduced benefit, when it was payable. But, whereas Sickness Benefit was to be paid not only to employed persons but also to other insured persons (self-employers, etc.), this latter class was not to be eligible at all for Invalidity Benefit, and would thus have to go to the Assistance Board for help in case of prolonged illness. Moreover, Sickness Benefit was to be granted, except to employed persons, only in the event of the illness lasting for more than four weeks. The Labour Government's National Insurance Bill of 1946 largely followed in these respects the lines of the Coalition White Paper, but made some notable improvements. Sickness Benefit was made unlimited in duration. Unemployment Benefit was again statutorily limited in duration—to 180 days—but as a temporary measure for the first five years discretionary power was given to the Minister, on the advice of local tribunals, to continue benefit for such further period as he might deem fit.

Injury and Disablement

Thus, the Coalition proposals in respect of both unemployment and invalidity fell a long way short of giving reasonable security of income, and a long way behind the proposals of the Beveridge Report. The Labour Government went some way, but not the full way, to what the Report had proposed. In the matter of industrial injuries and occupational diseases the position was more complicated. The Coalition Government agreed with Sir William Beveridge in wishing to abolish the existing form of Workmen's Compensation, with its continual recourse to the law courts, and to substitute for it a form of social service benefit. They also agreed in wishing to abolish the abuse of lump sum payments, which were often forced on the workman because he could not afford to wait until the courts had dealt with his case and assessed a weekly payment. But they differed from Sir William about the nature of the benefits that were to be given instead of compensation assessed by law. Sir William wanted to get over the difficulty

about immediate payments by providing for an allowance payable for a limited number of weeks from the date of the injury. This would have been the only payment in case of slight accidents, lasting only a short time, and would have been at a substantially higher rate than ordinary unemployment or sickness benefit, in order to meet special needs. In the case of more serious accidents, it would have allowed time for the extent of the injury and the appropriate rate of long-term payment to be assessed. This long-term payment, Sir William proposed, should vary with previous earnings, so as to give the injured workman in case of total incapacity two-thirds of his previous earnings up to a maximum of £3. This is, of course, the principle on which Workmen's Compensation has rested in the past, though the Beveridge proposals were more generous than those of the existing law. The Coalition Government, on the other hand, proposed to give up altogether any relation of payments for injury or disablement to previous earnings, and to provide instead flat-rate payments. It accepted the Beveridge proposal to institute an Injury Allowance payable from the start of the incapacity for a period up to 13 weeks; but from that point it proposed that the workman should receive a fixed Disablement Pension or Allowance at an increased rate—the rate payable for total incapacity being of course proportionately reduced in cases where the incapacity was only partial. The Labour Government, in its Industrial Injuries Act of 1946, followed the main lines of the Coalition White Paper, but made the benefits a good deal more extensive, by enlarging the claims of parents and other dependent relatives; by creating a special section for injured juvenile workers; by increasing disablement pensions in cases of special hardship; and by granting higher rates to women having the care of deceased persons' children. The Bill underwent large improvements while it was before Parliament, and was generally regarded as a great advance on the old system of workmen's compensation.

It should be noted that here again provision was made, as under the Workmen's Compensation Acts, only for employed persons. There was no provision for Injury Allowances or Disablement Pensions to anyone not previously employed under a contract of service. The independent worker or small employer, or the housewife, who met with an injury would still need to have recourse to a form of assistance—rechristened National Assistance—to be administered under the Means Test.

There are arguments both for and against basing compensation in case of accidents on previous earnings. On the one hand, where the State provides a public service, there is much to be said for

making benefits equal for all, irrespective of previous means. On the other hand, a skilled workman who meets with an accident that disables him will, under the flat-rate system, experience a serious fall in his customary standard of living, whereas the less skilled workman will not, or will do so only to a smaller extent. Sir William proposed that in industries particularly exposed to accident or occupational disease there should be a special levy on the firms employing labour in order to meet part of the heavy cost of compensation. The Coalition Government rejected this proposal, and elected to put the new flat-rate benefits on the basis of flat-rate contributions irrespective of the accident record of particular occupations. On the whole, I am inclined to think that in both these matters the Coalition Government was right, but that it should also have made it possible for skilled workers or others who are relatively highly paid to contribute to a supplementary scheme of higher Disablement Benefits, of which the State should have been ready to meet part of the cost.

The Pensions Problem

Much the most difficult matter with which Sir William Beveridge had to deal was that of Pensions, including both Old Age Pensions and Widows' Pensions. The problem of Old Age Pensions was peculiarly difficult because of the rapidly rising proportion of elderly people in the total population. As we have seen, whereas in 1911 only about 5 per cent. of the population of England and Wales was over 65, by 1931 the percentage had risen to 7·4. It was over 9 per cent. in 1941, and by 1971, apart from war casualties, it is expected to be nearing 16.[1] This, of course, means that any pension scheme that is meant to cover the costs of decent living is bound to be expensive and to involve a rapidly rising cost.

The Beveridge Report proposed to deal with this difficulty by beginning with a scale of pensions admitted to be entirely inadequate—though substantially better than the existing scales—and by gradually increasing the amounts paid over a period of twenty years, during which contributions would be coming in. The effect of this would have been to reduce the cost to the State during the early years of the social security scheme as a whole, but substantially to increase it later on, as the contributions accruing on account of the deferred pensions could be used to finance any part of the scheme in the meantime. The Coalition Government, however, rejected this plan in favour of a fixed scale of pensions, to be brought into force for the most part at once, but to be

[1] See p. 435.

extended to classes of persons who were not contributors to the existing contributory scheme only after payment of ten years' contributions. In order to reduce the cost involved, the Government fixed a scale of pensions a long way below the scale proposed for final adoption in the Beveridge Report—a scale, indeed, plainly inadequate to afford a tolerable standard of life at existing or prospective prices.

The new kind of Old Age Pension, which was to replace in due course both the contributory and the non-contributory schemes at present in force, was called by the Coalition Government a 'Retirement Pension,' and was to be paid only on actual retirement from regular work. For each year for which retirement was postponed beyond the statutory pensionable age—65 for men and 60 for women—there was to be a small addition to the amount of pension that could be claimed when a person did actually retire. These proposals were in accordance with the Beveridge Report. It seemed clearly desirable, in view of the increasing proportion of old people, and of the prospective adoption of a 'full employment' policy, to encourage elderly people who were still fit to continue at work and thus to reduce the burden on the rest of the population. Postponement of retirement must, of course, be wholly voluntary; and no sensible person will want to see old people still working when they are past work. But there is much to be said for the view that fit old people are likely to be happier working than with nothing to do—especially if the Retirement Pension is fixed too low to allow them any margin above absolutely necessary expenditure.

The Coalition Government's plan involved the disappearance of the pension which had been previously payable to an elderly person who had been a contributor even if he or she remained at work; but it was of course proposed to safeguard fully the rights of existing pensioners to go on as they were. Under the new scheme, when a man reached 65, pension was to be claimable in respect of his wife, if he had one, irrespective of her age, or the wife, if she was 60, or over, was to be entitled to claim a separate pension if she wished.

The Labour Government, in its Act of 1946, raised the rate of pensions from 20*s*. to 26*s*. a week for single persons, and from 35*s*. to 42*s*. for married couples. It also laid down that no reduction of pension on account of earnings should be made in the case of men continuing to work after 70, or of women after 65. It further provided for an increase of 2*s*., in place of 1*s*., a week in the rate of pension for each year for which a man or woman continued to work after reaching pensionable age. The Labour Government

thus split the difference between the rates proposed in the White Paper and the *ultimate* rates put forward in the Beveridge Report.

Widows' Pensions raised a number of special problems. Both the Beveridge Plan and the Coalition White Paper proposed to make them available for all classes of widows, and not only for the widows of employed men. It had, however, been questioned whether there could be any justification for paying a pension for life to a youngish widow who was left without dependent children and was physically capable of earning her own living. Under the old scheme such pensions were payable, to widows of insured men; and it was not proposed to disturb existing cases. But for the future, the Beveridge Report and the White Paper agreed, some differentiation ought to be made. All widows were to become entitled to a Widows' Benefit for a limited number of weeks—13 weeks were proposed—after the husband's death; and thereafter Guardian Benefit (later renamed 'Widowed Mother's Allowance') was to be paid to widows with dependent children and, at a lower rate, Widows' Pensions to other widows over 50 at the time of widowhood. Widows without children, who were under 50, were to get a still lower pension (10*s*.—the previously existing rate) if they were already, before the new scheme started, married to men insured under the existing scheme. If not, they were to get no pension unless they were otherwise qualified. In due course, women who received Widows' Pensions were to be transferred to Retirement Pensions when they reached 60 years of age.

Here, again, the Labour Government's Act made improvements on the White Paper proposals. It raised the normal Widow's Pension from 20*s*. to 26*s*., and the rate for a widow with one child from 29*s*. to 33*s*. 6*d*. It also lowered from 50 to 40 the age at which widows could receive pensions if they were no longer in receipt of Widowed Mother's Allowances; and it made better provision for young widows who were for any reason incapable of supporting themselves. In other respects, it followed the lines of the White Paper.

Benefit Rates and the Price Level

At this point it becomes appropriate to raise a general issue which I have deliberately left over until now—that of the general money rates of benefit under the various heads. Sir William Beveridge had to work out his plan fairly early in the war, at a time when it was entirely unknown what the post-war level of prices was likely to be. In these circumstances it was impossible for him to propose definite rates of benefit: the most he could do

was to take the cost of living broadly *as it then was*, or was officially reckoned to be, and to say what benefits he regarded as appropriate *at that level of prices*, with the addendum that the rates would have finally to be adjusted to whatever did turn out to be the post-war cost of living. Sir William, therefore, based his figures on a price level 25 per cent. above the pre-war level, whereas, by the time the Coalition Government's White Paper appeared in 1944, the rise was substantially more than one-third. Nevertheless, in most cases, the Coalition Government accepted Sir William's actual figures without any adjustment to the higher price level, or any promise of future adjustment.

Thus, when the Coalition Government proposed that Sickness and Unemployment Benefit should be at the rate of 40*s.* for a married couple, it omitted to adjust the rate proposed in 1942 to the higher cost of living which had already come to exist by 1944, or to make any provision for such adjustment, and similarly right through the scheme. For example, the 40*s.* rate proposed in the Beveridge Report for a married couple in case of sickness or unemployment would become 42*s.* 6*d.* at a price level one-third higher, and 48*s.* at a price level 50 per cent. higher, than that of 1939. A child's allowance of 8*s.* would become, under corresponding conditions, rather over 8*s.* 6*d.* The proposed full pension rate of 45*s.* would become 48*s.* and 54*s.*; and so on. When the Coalition's White Paper appeared it was still impossible to say at what level the post-war cost of living was likely to settle down; but unless there were to be a sharp fall from existing levels it was evident that all the proposed rates of benefit would be seriously inadequate by the standards laid down in the Beveridge Report. This applied especially to the Coalition Government's proposed rates for Retirement Pensions, as well as for Children's Allowances. 35*s.* for a married couple, and 20*s.* for a single person, were plainly not living rates at any level of prices that seemed at all likely to become established in the near future.

The Labour Government followed the White Paper in laying down fixed benefits without any automatic provision for varying them as the cost of living changed; but it improved on the rates which the preceding Government had proposed. Thus, it put the general rate of unemployment and sickness benefit at 26*s.*, instead of 24*s.*; the allowance for the first child (the others being covered under the Family Allowances Act) at 7*s.* 6*d.* instead of 5*s.*; the widow's pension and the general retirement pension at 26*s.*, instead of 20*s.*; and the married couple's pension at 42*s.* instead of 35*s.* Whether these rates will turn out to be adequate or not obviously depends on the level at which the cost of living settles

down. The Labour Government's Act also provided for a quinquennial review of the rates of benefit "with particular regard to any changes in the expenditure needed for the preservation of health and working capacity." There was no such provision in the White Paper.

Rents and Local Rates

There was, moreover, the exceedingly difficult problem of rents. The rents which different households have to pay for equivalent accommodation vary extraordinarily and irrationally from case to case. This is partly on account of local differences, such as the high rent levels prevalent in the London area; but it is due also to the peculiar operation of the Acts providing for rent control, to the anomalies of the system of local rates, and to the differences in public housing policy from one place to another. Rent control has operated, broadly speaking, so as to keep down the rents and rates of those who have continued to live in the same houses; but changes in the Rents Acts from time to time have created a host of anomalies. Local rates on the other hand have usually been assessed on a basis which underrates the newer houses in comparison with the older, or at any rate with those that are not subject to rent control; but in this case changes in assessment, which may be made at any time, may bring about a sudden rise in the rent-plus-rates charge of hundreds of thousands of householders who can ill afford to spend a larger proportion of their incomes on house-room. Again, there are large differences between local Councils in the methods of fixing rents for council houses; and in addition to these differences some Councils operate schemes of rent rebates dependent in some places on the size of the family and in others on the family income, no two schemes being altogether alike. Many authorities have no such schemes; and there are of course none in the case of houses provided by private enterprise.

The consequence of all this confusion is that rent (inclusive of local rates) forms an immensely variable element in the cost of living of different households at approximately equal levels of total income. If, then, social security benefits are to be provided at fixed rates, so as to cover basic living costs, it seems clearly necessary to take account of what each household has to spend on rent and to allow for this factor separately. This, however, cannot easily be done; for the question at once arises what standard of housing accommodation is to be allowed for. If rents roughly coincided with the quality of the accommodation provided, and

if further there were plenty of alternative houses into which households could move as their incomes were curtailed, it would be possible to fix standard rent allowances. But in fact neither of these conditions is present: nor would it be desirable or practicable to face households with the alternatives of either moving into smaller houses, or taking in lodgers, or going short of other necessaries of life, whenever their breadwinners fell sick or out of work.

Sir William Beveridge, after giving prolonged consideration to this intractable problem, arrived at the view that it ought to be solved in the realm not of the social security services but of housing policy—by rationalising rents so as to bring them into rough accordance with quality of accommodation, by providing enough houses to make movement easy, and, perhaps, by differential renting in accordance with incomes or sizes of family. He therefore made no recommendation for any rent allowances in connection with his proposed scales of benefits under the social security scheme. In the long run, he was very likely right; but he did not explain how the alternative remedies to which he looked could possibly be applied for a long time or, at any time, unless housing became a public service not merely for a small minority of the population, but for the great majority. The conclusion was unavoidable that the social security scheme ought, at any rate for the time being, to make provision for rent allowances. This was clearest of all in the case of London. In 1938, of the applicants for Unemployment Assistance in England and Wales, nearly 10 per cent. were paying less than 5*s*. a week in rent, whereas over 7 per cent. were paying over 15*s*. In Scotland over 30 per cent. were paying less than 5*s*., and under 1 per cent. over 15*s*. In London, on the other hand, over 30 per cent. were paying more than 15*s*., and nearly 11 per cent. more than £1. In face of such discrepancies, how could anyone estimate the sum which ought to be included in respect of rent in a total benefit designed to prevent Want and to assure a National Minimum Standard of Social Security? Obviously no one could. Sir William cut the knot by arbitrarily allowing 10*s*. for a family and 6*s*. 6*d*. for a single individual as the rent allocation within the total benefit which he proposed, with merely a subsidiary recommendation that the possibilities of regional or occupational differentiation of both benefits and contributions should be further examined. But this would not have done. It is a notorious fact that the poorest households usually pay the largest proportions of total income away in rents, and often go short of food and other necessaries for this very reason. It is impracticable to deal with this problem by means of

rent rebates or differential rents as long as most houses are privately owned. It plainly needed to be dealt with, at any rate temporarily, by some system of rent allowances supplementary to social security benefits.

It is, of course, the case that this rent problem applies not only to the sick, the disabled, and the unemployed, but also to the worse-paid of the workers who are actually in employment. It is a wider problem than can be dealt with adequately within the scope of social insurance and social assistance schemes designed for those who are not in work. But that was no reason for not dealing with the part of it that did fall within the range of these services—unless indeed it could be supposed that the State was ready to apply at once much more drastic remedies over the entire field. That the State was not ready so to act appears plainly from the fact that the entire problem still remains unsolved.

Maternity Grants

There are left for consideration the proposals for dealing with the needs of maternity and with death grants. The Coalition Government closely followed the Beveridge Plan in its proposals for small maternity grants (£4) to all classes of women, and for Maternity Benefit of 36*s*. a week, restricted to women who normally earn their own livings, for a maximum of 13 weeks, provided they are away from work. There was no provision, beyond the small grant and an allowance for paid attendance over four weeks, for the housewife who does not go out to work. She was to be excluded from Maternity Benefit on the ground that her confinement would not, like that of the woman earner, cause a positive loss of household income. There might have been some force in this if the Maternity Grant and the Attendant's Allowance had been made more adequate. As it stood, it definitely was not good enough. But it was left unaltered in the Labour Government's Act.

Funeral Benefits

Finally there is the question of Death Grant, or Funeral Benefit. It was satisfactory that the Coalition Government, after initial misgivings, accepted the Beveridge proposal to include Death Grant (of £20 for adults, with smaller amounts for juniors) in the State scheme, as the State could obviously give the insured very much better terms than the insurance companies which had

hitherto done the work. The Labour Act adopted these provisions of the White Paper without change. What was much less satisfactory was that both the Coalition Government and the Labour Government rejected Sir William Beveridge's further proposal to put the entire business of voluntary industrial insurance under a non-profit-making Industrial Assurance Board, which would have made an end of the touting for business through agents which goes on under the Insurance Companies and Collecting Societies. The reason for the dropping of this proposal in the first instance was no doubt partly the dislike of public enterprise felt by many members of the wartime Government, but mainly the opposition put up by the Insurance Companies, which were naturally unwilling to lose a very remunerative type of business. The insurance agent has hitherto combined work for an Approved Society administering Sickness and other benefits under the State scheme with touting for funeral insurance, endowment insurance, and other forms of private business on behalf of his insurance company or collecting society. The discontinuance of the Approved Society system will make an end of this particular abuse of touting for profitable business under cover of a public scheme; but it would be very much better for the State to take over the whole industrial side of insurance, and thus to give the voluntarily as well as the compulsorily insured contributor the benefit of unified and economical administration and of disinterested instead of interested advice from the agents employed. It is surprising that the Labour Government did not see the advantage of returning in this matter to the original Beveridge Plan.

The Prospects Reviewed

We have now run, somewhat cursorily, over the whole of the major proposals made in the Beveridge Report and taken up, wholly or in part, in the Coalition Government's White Paper of 1944 and in the Labour Government's Act of 1946. Now that the Labour Government's Bill has become law, though there is still plenty of room for improvement, a great step forward has been made. As recently as 1910 there was no public provision at all, except the Poor Law, for either sickness or unemployment, and none for old age except the newly instituted Old Age Pension of 5*s*.—and even that was subject to a test of means. The device of compulsory insurance, though it had been applied in Germany, had not been introduced into Great Britain. The agitation in favour of fuller public provision for the needs of the sick, the disabled, and the unemployed had just received a powerful stimulus

from the famous Minority Report of the Poor Law Commission, published in 1909, and drafted by Sidney and Beatrice Webb; but there was no disposition in official quarters to accept either its positive proposals or its diagnosis of the people's needs.

Health Insurance and the Panel Doctor

In the following year, 1911, came the National Insurance Act, sponsored by David Lloyd George. With the cash benefit provisions of this Act I have dealt already; but in addition to inaugurating Sickness Benefit and Unemployment Benefit it made a beginning with the provision of a publicly organised medical service on a basis of compulsory insurance. The Act of 1911 set up the system of panel practice, whereby general practitioners, in return for capitation fees, over the amount of which there was keen dispute, undertook the medical care of the classes subject to compulsory insurance, but not of their dependants, who were left either to pay fees or to be covered by private contributory arrangements, or to go without medical attention even when they clearly needed it.

The panel system enabled the doctors to combine private practice with working under the state scheme. There existed, even in 1911, a small body of doctors who keenly advocated a State Medical Service staffed by salaried practitioners and open to the entire population free of charge. But their views carried no weight: their voices were drowned by the clamour against taking away the freedom of the doctor to work for profit and the alleged freedom of the patient to choose his doctor—though in practice this latter freedom was often illusory and there was no reason why there should not have been at least as much of it under a system of salaried practice. The panel system, as we have seen, provided the insured workers with a general practitioner service, but not with either consultant or specialist service or the facilities for institutional treatment. There had indeed been growing up gradually, since the Sanitary Act of 1866, a system of publicly provided isolation hospitals for the treatment of infectious diseases, and the poor law authorities had their own system of hospitals for the treatment of the sick poor. But there was, until 1930, no general acceptance of the principle that hospital provision for the whole range of diseases needing institutional treatment should be a function of the local authorities; and even after 1930 this principle had been very imperfectly carried into effect, even if we count the voluntary hospitals as in effect co-ordinated with the public system.

Changing Views on the Health Problem

Since 1911, when the panel system was introduced, there have been very great changes both in medical and in lay views concerning the health needs of the people. Nobody would now defend the view that it is enough to provide the public—much less only a section of it—with a general practitioner service, and with nothing more. Modern opinion stresses the importance of doing everything possible to prevent ill-health, as well as to treat disease; to secure expert diagnosis, which, in difficult cases, the general practitioner cannot be expected to provide; and to promote co-operation both between neighbouring doctors with complementary skills and between doctors and public in spreading knowledge of the conditions of good health and in promoting improved sanitary habits. There has been developed an extensive school medical service of inspection and treatment of minor ailments, at least a beginning of provision of maternity and child welfare clinics, and a still rudimentary industrial health service, which has not spread as yet beyond the large factories, and differs greatly from factory to factory in both range and efficiency. For some time past the leading medical bodies have accepted in principle the need for a much more comprehensive health service for the main body of the people, including the supply of adequate specialist and institutional services; and there has been a growing advocacy of 'Health Centres'—a term which has been used to cover a wide variety of projects, ranging from a sort of community centre to which all kinds of people would look not only for doctoring but for every service ministering to the preservation of good health, to a professional centre, from which a group of doctors would conduct a combined practice including simple surgical treatment as well as dispensing and general medical advice.

A National Health Service

This is the background against which the Coalition Government put forward in 1944 its proposals for implementing the medical assumptions of the Beveridge Report. The Report had proposed that there should be a National Health Service, free of charge, open to the entire population, and paid for partly by contributions under the general social security scheme and partly by the Exchequer out of the proceeds of general taxation. This Service, Sir William held, should be designed to cover dental, ophthalmic, specialist and hospital treatment and the supply of apparatus as well as the work of the ordinary practitioner; and it should be so organised as to ensure that no one should go short on grounds of poverty of whatever was needed for the treatment of

every sort of ailment or disease. Such equality is, of course, in practice unattainable as long as poverty continues to exist; for malnutrition and bad environment are fertile causes of ill-health, and those who have to earn their livings from day to day and have few or no reserves cannot afford to take time off when they would benefit by it as easily as the well-to-do. But, short of equality, a great deal can obviously be done to raise the general standards; and the Beveridge Report assumed that everything that could be done within the limits set by differences of income ought to be done.

The Beveridge proposals at once gave rise to two lively controversies, which are still raging to-day round the development of them in the Coalition Government's White Paper on *A National Health Service*, as modified in the National Health Service Act of 1946. In the first place, many doctors, especially among the private practitioners and among the more successful financially, have been strongly hostile to any plan which they think likely to lead to a development of salaried practice, especially if such practice is to be put in any respect under the auspices of the local authorities. Secondly, and in close connection with the first point, the same groups of doctors would have liked to restrict the National Health Service to the poorer classes, in order to maintain private, fee-taking practice in the case of the better-off.

This desire to limit the range of the National Health Service was plainly inconsistent with the very foundation on which both the Beveridge Plan and the general social security plan based upon it necessarily rest. These plans alike proposed to bring in all classes of the population as contributors; and it is impracticable to do this without extending to all of them the use of the services which are to be made available under the contributory scheme. It is, no doubt, quite possible to allow those who prefer to pay their doctors for services which they will be entitled to receive free of charge to do so; and this the Labour Government's Act, as well as the Coalition's White Paper, leaves them free to do. It cannot however be easy to reconcile this freedom with the securing of real equality of service for those who pay twice over and those who pay only once. It has often been said that most panel doctors who also take private paying patients do not in practice give the same service to both groups, and it is undeniable that this is the case. It would be quite out of the question for all doctors to give all their patients the same amount of time and attention as have been given in the past to a small minority of well-to-do patients who have been prepared to pay fees for regular visits to their homes, even when there has been nothing much wrong with them. Nor,

of course, can it be practicable for all patients to receive the same quality of service as has been received by a few who have been able to afford high fees in exclusive nursing homes. This, however, is a separate question from that of the general practitioner service, which has been the principal battle-ground between the rival schools of thought.

Health Centres

Mixed up with this question of paying patients is that of the organisation of the new public service. There is wide support in medical circles as well as elsewhere for the idea of 'Health Centres'; but, as we have seen, many different interpretations are put upon the name. One aspect of it is that there should be a building in which a number of doctors should have their separate consulting rooms, and that this building should include communal waiting rooms, auxiliary nursing and other services, an operating theatre for minor operations, a dispensary, laboratories, and perhaps also the equipment required for maternity and child welfare services. But the question at once arises, if such buildings are to exist, whether the doctors who use them are to continue individual practice in them, each with his own group of patients paying him individually or through the State, or whether the doctors are to practise as a team, and if so, whether as partners in an enlarged private practice, pooling fees, or as salaried servants of the public. Even in this aspect alone a Health Centre can be anything from a block of offices and consulting rooms for a group of private partners to a public institution run on a non-profit-making basis as an integral part of the National Health Service. Moreover, there is the further question whether, if service in the Health Centres is put on a salaried basis, the doctors who engage in it are to be allowed to accept private fee-paying patients outside the Centres.

The Doctors and the Public

These questions get inextricably mixed up with that of the relations between the medical profession and the public authorities responsible for health services in general. A section among the doctors takes a strong line against 'lay' control, and has demanded that the profession be organised into some sort of medical corporation and be given complete immunity from any control by the elected representatives of the public. It is recognised that such a corporation would have to accept some responsibility directly to the State; but objection has been taken to giving the local authorities any say. These authorities, however, are already

responsible for general health conditions in their areas, own and administer a large number of hospitals, have considerable bodies of doctors in their salaried employment, and are much too deeply involved to be left out of the new scheme, of which a unified hospital service forms an essential part. For many purposes it is clearly necessary to group local authorities on a regional basis in order to secure proper service, for which most local authority areas are much too small. Such regional grouping is contemplated in all the rival schemes that have been proposed; but the creation of joint authorities clearly cannot do away with the final responsibility of the elected local councillors in the various areas they represent.

It must not be thought that there has been united medical opposition either to salaried service or to some measure of 'lay' control. The existing system, under which medical practices are bought and sold, often for considerable sums, favours the doctor who has capital as against the doctor who has his own way to make; and many young doctors would gladly see it superseded by a system under which they could hope to earn a reasonable income by way of salary instead of having to burden themselves with debt in buying a practice. Doctors already in salaried positions as Medical Officers of Health or in the School Medical Service, or in municipal hospitals or other public branches of the profession, do not in fact usually find the conditions so irksome as to be opposed to an extension of the system. There is, however, among the general body of local practitioners, as among other sections of the middle classes, an instinctive dislike of anything labelled 'bureaucracy' which it is easy for the upholders of the system of private practice to exploit.

Nevertheless, the questionnaire issued in 1944 by the British Medical Association to all its members, including those absent on war service, showed a large measure of support for a comprehensive health service open to all. Sixty per cent. of those who answered were in favour of a service covering the entire population without exception and not only the poorer strata, and only 37 per cent. were against. Sixty-nine per cent., against 28 per cent., wanted a complete free hospital and consultant services: 68 per cent., against 24 per cent., favoured the setting up of Health Centres: 62 per cent., against 29 per cent., preferred salaries to capitation fees; and 52 per cent., against 33 per cent., wished the sale of medical practices to be abolished. The votes of the doctors serving with the Forces, which were separately counted, showed in every case substantially bigger majorities—73 per cent. for an all-in service, 79 per cent. for a complete free

hospital and consultant service, 83 per cent. or Health Centres, 74 per cent. for salaries, and 61 per cent. for abolition of the sale of practices. As against this, 51 per cent. of all doctors voted against a central administration based on the Ministry of Health advised by a Central Health Services Council; but here again, of the service doctors, 45 per cent. voted for, and only 41 per cent. against. The fear of bureaucracy and the desire for purely professional control were behind this vote.

The Problem of Administration

Indeed, in the discussions between the Coalition Government and the doctors which followed the issue of the White Paper in 1944, it soon became clear that administration was the crux of the difficulty. The Coalition Government proposed that the general practitioner service should be in the main centrally organised under a Central Medical Board, which would have the duty of supervision and of endorsing applications to acquire existing practices under the scheme or to set up new ones and that of admitting doctors to Health Centres. The C.M.B. was designed to consist mainly of doctors, but to include 'lay' members. It was to be appointed by the Minister of Health, was to consist partly of full-time and partly of part-time members, and was to have under it local committees on which the local authorities as well as the doctors in each area would be represented. Doctors working in Health Centres were to be under a three-party contract between the C.M.B., the local health authority, and the doctor, whereas other doctors in practice under the scheme were to be under contracts entered into directly with the C.M.B. on behalf of the Minister. Doctors in Health Centres were to receive salaries, but other doctors were to be paid for their public patients by capitation fees, and were to be left free to take private paying patients subject to a limitation on the total number of patients, public and private. Doctors in Health Centres were also to be allowed, at any rate for an interim period, to take private patients. The White Paper left over for further discussion the question of abolishing the sale of practices, but proposed that young doctors should as a rule serve for a period as assistants before being entitled to practice on their own.

Hospital and Consultant Services

On the question of hospitals, the Coalition Government, in view of the inadequacy of most local authority areas for the conduct of an efficient hospital service, proposed the establishment of joint hospital authorities, which were to take over the control

of the existing public hospitals and to work out plans for the development of adequate hospital services throughout their areas. The Coalition White Paper contemplated that the voluntary hospitals would be brought into the area schemes, and would receive financial help from public funds, but would not be taken over by the State or the area authorities. On the other hand, both hospitals for infectious diseases and mental hospitals should, it was held, be taken over by the new joint authorities.

It was proposed in the White Paper that the new consultant service which it was intended to make available for the entire population should be organised mainly round the hospitals. The provision of such a service is of course bound to require a very great increase in the total number of consultants, and in many areas the setting up of a wholly new organisation, as consultants are mainly concentrated at present in a few big centres of population, especially in the neighbourhood of the great teaching hospitals. Much of the work done in this field has hitherto been unpaid; but the White Paper recognised that for the future it would have to be put on a regular salaried basis. A satisfactory consultant service for all will inevitably take a considerable time to organise; for at present the doctors capable of staffing such a service simply do not exist in sufficient numbers.

The Health Act of 1946

The Labour Government's National Health Service Act of 1946 was a considerable improvement on the proposals made in the Coalition White Paper. The scheme set out in the Act rested on a division of final responsibility between the Minister of Health and the local authorities. The Minister (or in Scotland the Secretary of State) assumed final responsibility for the entire service. This responsibility was direct in the case of hospital and specialist services, indirect in the case of services to be organised under local government auspices—including Health Centres, clinics, and certain domiciliary services—and a mixture of direct and indirect in the case of the general practitioner service, round which the largest controversy still raged. Nationally, the Minister was to be advised by a Central Health Services Council including "persons chosen from all the main fields of experience within the service"; and this Council was to have standing committees of experts in all the main fields. For the general practitioner services, a local Executive Council, consisting half of nominees of the Minister and of the local authorities, and half of nominees of the local doctors, was to be set up for the area of each major local authority; and these Councils were to work under regulations

made by the Minister. The provision of Health Centres, clinics, and domiciliary services was to be a function of the major local authorities—County and County Borough Councils—exclusively, under arrangements needing the Minister's approval. The voluntary hospitals, except teaching hospitals attached to university medical schools, were to be taken over, together with the hospitals belonging to local authorities; and the administration of the unified hospital and specialist services was to be entrusted to Regional Hospital Boards established under the Act, including both professional and lay members, and acting on the Minister's behalf. These Boards were to appoint local Hospital Management Committees, either for single hospitals or for groups, each "forming a reasonably self-contained hospital unit." The teaching hospitals, under separate Boards of Governors, were to remain independent, but were to be co-ordinated with the other hospitals in each region, so as to form part of a unified service. The endowments of voluntary hospitals, other than teaching hospitals, were to be transferred to a Hospital Endowment Fund, to be used, after meeting existing liabilities, by the new Regional Hospital Boards; and the general financial responsibility for the maintenance of hospital and specialist services throughout the country was to be taken over by the State. Special provision was to be made for research, to be carried on both directly under the auspices of the Minister and by teaching and other hospitals with aid from public funds.

In the part of the Act dealing with the general practitioner services, stress was put on the provision of Health Centres by the local authorities. These Health Centres, it was laid down, should afford facilities both for general medical and dental services and also "for many of the special clinic services of the local health authorities," and for "various activities in health education." The building, equipment and staffing of these Health Centres was to be a statutory duty of the county and county borough councils; but the councils were to have no direct control over the doctors using the Centres for general practitioner work. Doctors entering the State scheme, whether in Health Centres or not, were to work under contract with the Executive Councils for the areas in which they were to practise; and such doctors were to be allowed to take private, fee-paying patients. Remuneration within the State service was to be by a mixture of salary and capitation fee, the latter on a scale diminishing with the number of patients on the doctor's list. Patients were to have free choice of doctor, from the lists compiled by the Executive Councils; and every practising G.P. was to have the right to have his name put on the

list for the area in which he was actually settled. Sale of practices was to be abolished, with compensation (for which the large sum of £66 millions was set aside); and for the future succession to an existing practice, or the right to start a new one, was to be subject to the consent of a mainly professional Medical Practices Committee, set up under the Act. This body, however, was not to be entitled to refuse permission, except on the ground that there were enough doctors already in the area working under the state system; and special inducements were to be offered to doctors to set up practices in the "less attractive areas." Similar arrangements were formulated for the enrolment of pharmacists, through whom drugs and appliances were to be supplied free to all users of the state service.

On the dental side, owing to the severe shortage of qualified dental practitioners, the arrangements had to be much more tentative, and it had to be recognised that it would take a considerable time to provide a complete service. In the meantime, priority was to be given, through the local authorities' maternity, child welfare, and school medical services, to expectant mothers and to young people. In the longer run, dental provision was to be made either in the Health Centres or in special Dental Centres. Eye services, on the other hand, were to be attached to the hospital and specialist system, but, pending adequate development, interim local arrangements were to be made.

The Doctor's Income

The Act did not settle what the rates of pay were to be, either for doctors or dentists or for other specialists, or what proportion of total earnings was to consist of salary and what of capitation fees. In respect of general practitioners, however, the question of the level of remuneration was remitted to a special committee, under the chairmanship of Sir Will Spens. This body recommended that "a scheme should be devised which will ensure that between 40 and 50 years of age approximately 50 per cent. of general practitioners receive net incomes of £1,300 or over, and which will also secure, so far as practicable, that between 40 and 50 years of age approximately three-quarters receive net incomes over £1,000, that approximately one-quarter receive net incomes over £1,600, that slightly less than 10 per cent. receive net incomes over £2,000, and that, in a small proportion of cases, it is possible to obtain net incomes of at least £2,500." The committee made no definite recommendations about the incomes of younger practising doctors, on the assumption that the rates paid would be adjusted to what was proposed for those

over 40 years of age. It did, however, propose that "on completion of resident hospital appointments a recently qualified practitioner should secure an initial net income of not less than £500 per annum as an assistant to a doctor in general practice."

The Shortage of Personnel

No one can argue that these terms are ungenerous. They compare very favourably indeed with earnings in other professions, and are evidently designed to encourage both increasing numbers and higher quality in entrants to the medical profession. The existing serious shortage of personnel applies not only to consultants but over a much wider field. There are not enough general practitioners to supply an efficient service for the whole population; nor are there enough medical workers in specialised fields to staff the school medical services, the child welfare clinics, the factory medical services, and all the other expanding branches of salaried medical work. There are far too few dentists: the shortage of nurses has been serious for some time past and is leading at last to real attempts to improve conditions in a profession which little has been done to render attractive. The educational requirements of the new conception of a National Health Service giving as good treatment to the poor as to the rich have still to be faced and cannot be easily met; for the problem in all branches is that of increasing the supply without lowering the quality. Indeed, the quality needs to be substantially improved, if the promises held out in the Labour Government's proposals are to be translated into fact, and above all if the emphasis is to be successfully shifted from the mere treatment of disease to the preservation of good health. There will have to be a considerable expansion of medical teaching in the Universities, and a reform in medical curricula so as to bring them more into line with modern ideas, especially in the field of social medicine. Side by side with this, there will have to be a great expansion in the employment, and improvement in the training, of medical social workers, nurses, and all the other auxiliary sections of the medical and health services.

The Wider Aspects of the Health Problem

Health, moreover, involves much wider issues than can be dealt with merely by medical reforms. It is bound up with nutrition, with the general conditions of life in cities and factories, offices and mines, with housing and town planning, with the provision of playing-fields, parks, and open spaces, with the physical side of youth training, and to an equal extent with

health education in schools and in the new County Colleges. One outstanding question is how far, under the new conditions, medical and other social services are to remain in separate compartments. We have seen that, whereas some people envisage Health Centres merely as buildings from which a number of doctors will operate a combined practice, or perhaps even separate practices merely using certain auxiliary services in common, others, such as the pioneers connected with the Peckham Health Centre, envisage a development of an essentially different order. This latter school regards the Health Centre, not merely as an institution for combined medical practice, but as a centre of community life, grouping a wide range of social services important for health, and so designed as to serve the purposes of a Community Centre for a whole local community. The Labour Government's Act gives strong encouragement to the development of Health Centres, but leaves it largely to the local authorities or to future regulations to determine what form the Centres are to take. There is clearly little prospect that the Peckham type of Centre will be developed in the near future on any considerable scale, if only because of the difficulty of erecting the buildings that would be required. It is, however, clearly intended that in course of time Health Centres shall provide an opportunity for grouping together with the general practitioner service other services, such as home nursing, midwifery, health visiting, and child welfare. It will obviously be difficult for some time to come to get Health Centres of this kind built in any large number, even if there were not other obstacles in the way. It is, however, of the greatest importance that experiments on a considerable scale shall be made as soon as possible with this type of Health Centre as well as with the mere grouping of medical practices in larger units housed in a common building.

I do not propose in this chapter to discuss further the implications of the new conception of what the State owes to the whole community in the field of health service. Some of the other aspects of this conception have come up already in earlier chapters. What is evident in the part of the field here considered is that the real, as distinct from the paper, rate of progress depends on the energy with which those responsible tackle the human side of the problem—that of training on a sufficient scale and in the right ways the men and women who will have to do the work, if it is to get done at all. We shall have to transform doctoring, which we have allowed to develop as a form of profit-making private enterprise, with an admixture of charity, into a completely public service. I am convinced that this cannot be done

without putting the medical profession on a salaried basis at least as much as, say, University and school teaching, in their main branches, are on a salaried basis. Yet I sympathise with the desire of doctors and dentists and other professionals not to become mere Civil Servants or employees of the local authorities, but to establish a measure of professional self-government. It is plainly out of the question to hand the public over, in a matter in which every member of it is vitally concerned, to the control of a professional Corporation, such as some of the doctors would have liked to see set up with almost complete immunity from public control. The B.M.A. questionnaire of 1944, to which I have referred, made it plain that, despite the attitude of the B.M.A. leaders, this solution does not command effective support even among the general body of doctors; for only about a quarter of those who replied were favourable to the idea. The solution worked out in the Labour Government's Act, with an element of 'lay' representation and the final responsibility placed in the hands of the Ministry of Health, seems to be a reasonable way of tackling the difficulty—provided that due representation is given to other professional interests besides the doctors'—for example, to the nursing profession and to the professional social workers attached to the medical services. So much turns, however, on the detailed working out and in particular on the powers and functions of the proposed local and regional bodies established under the Act, that it is not at all surprising to find the doctors, despite the large concessions made to their hostility to 'lay' control, still maintaining an attitude of intransigeant opposition to the Act of 1946, even after it had passed into law. In December, 1946, the British Medical Association, on a ballot vote of the profession, was able to get a majority in favour of a refusal to negotiate with the Minister of Health on the terms of the Act as approved by Parliament, and thus committed itself to defying the Minister and threatening to advise its members to refuse service under the Act. In taking up this attitude the doctors, to the extent to which the B.M.A. could be regarded as representing them, were being definitely unreasonable, and could hardly expect to sustain their position. Their valid case had been mainly met by the concessions already made; and there was plainly a large element of political prejudice in their defiance. Indeed, only a month passed before the B.M.A. changed its mind, to the extent of agreeing to reopen negotiations, while still insisting that the terms of the Act were unacceptable. All the same, public opinion received the doctors' ultimatum with remarkable calm. The public wants neither a 'bureaucratised' nor a 'corporative' medical service: it is prepared

to allow the professionals a wide measure of self-government, provided it can be assured that policy will be settled by the voice of the community and not by the profession in its own interest. This is, of course, entirely inconsistent with the expressed desire of some doctors to "keep medicine out of politics." It is impossible to have a National Health Service without bringing medicine right into politics; but it should not be impracticable to limit the 'politics' to real questions of policy, and to concede to the professionals a large measure of autonomy in actual administration.

CHAPTER VII

WAGES AND EFFICIENCY

The Problem of the Living Wage

I SAID AT THE BEGINNING of the preceding chapter that Want could not be done away with merely by ensuring minimum incomes to the sick, the disabled, the aged, and the unemployed, because Want exists also among the employed who are not able to command a tolerable living wage. The institution of children's allowances will, of course, go some way towards solving this problem, because Want among employed workers exists most of all in large households where there are a number of young children. But there remain plenty of cases in which the root of the trouble is the lowness of the wages earned. A policy of Full Employment will tend to reduce the number of these cases both by striking at intermittent or casual employment and making it easier to earn a steady wage for a full week's work, and also by improving the bargaining power of the workers, which is undermined by unemployment or casual employment. It is, however, necessary in addition to tackle the question of wages directly. This has been done hitherto only in a small minority of trades—chiefly those employing a high proportion of female labour. The fixing of minimum wages by statute began with the Trade Boards Act of 1909, which applied in the first instance only to a few women's trades in which 'sweating' had been shown to be particularly prevalent. The Trade Boards Act of 1918 gave the State much wider powers, authorising the establishment of a Trade Board in any trade in which either wages were abnormally low or there was an absence of effective means of settling wages by collective bargaining; but after a burst of activity in 1919 and 1920, which led to the setting up of a considerable number of Boards, the Government, in the slump of 1921 and the following years, abruptly shut down this process, and only a very few additional Trade Boards were established after 1921. The agricultural workers got a separate Wages Board, with power to fix minimum rates, under the Corn Production Act passed during the first World War. This Act was swept away in 1921; but the Labour Government of 1924 restored the Wages Board in a modified form. Other special Acts in the 1930's set up Boards for cotton

weavers and for road haulage workers; but nothing was done between the wars for most of the worst-paid workers who were outside the scope of the existing Trade Boards. These were in the main either workers in scattered or unorganised occupations to which the Trade Boards Acts had not been, and in many cases could not easily have been, applied, or groups of workers employed by small firms or firms not parties to collective agreements in trades and industries in which the main body of workers had more satisfactory conditions of employment.

The Wage Councils Act

The Coalition Government's Wages Councils Act, passed in 1945, was designed to deal with some of these problems. Under its provisions, the Government took power to set up a Wages Council in any occupation in which no adequate voluntary wage-fixing machinery is in operation and in which a reasonable standard of remuneration is not being maintained. The Wages Councils have power to fix minimum standards of remuneration, which are to be enforceable at law; and they have somewhat wider functions than the existing Trade Boards, which they have replaced. They consist, like the Trade Boards, mainly of representatives of employers and workers in the trades or occupations concerned, with an impartial chairman and a small number of appointed members not connected with these trades or occupations. In addition, for a period of five years from the lapsing of the wartime machinery of wage regulation, all employers in industries and occupations not covered by statutory wage-regulation are bound to observe conditions of employment not less favourable than those laid down in any collective agreement covering a substantial proportion of the workers in the occupation concerned. It has thus become illegal for unfederated firms to pay lower wages than federated firms in an industry or occupation normally pay to their employees for similar work. This provision came into force during the war under the Conditions of Employment Order of 1940; but it has now been extended by statute into the post-war period.

It will be seen that this Act, though full use of it will go a considerable way, seems to be so drafted as still to leave it difficult to deal with underpayment in scattered and miscellaneous occupations for which a separate Wages Council cannot easily be set up. The idea of an overriding minimum wage for all workers, or of separate overriding minima for men, women, and juvenile workers, is still rejected; and so is the proposal, which I have been advocating for more than a quarter of a century, to set up

a Wages Commission with power to lay down minimum rates for any underpaid group of workers in whose case no separate statutory machinery exists. Yet I do not see how, without one or other of these provisions, Want due to underpayment is to be prevented in a number of instances, which, though small in relation to the total numbers employed, is enough to cause no little unmerited suffering.[1] The plain truth is that nobody is much interested in these scattered workers, who seldom join Trade Unions or make themselves articulate in any way. Yet they too are men and women, and can experience Want.

The Problem of Redistributing Man-power

There are, however, a number of much larger aspects of the wages problem that have now to be faced. Even apart from the 'sweated' trades, for which it has been regarded as appropriate to fix minimum wages by law, there have been a large number of quite important industries in which wages and earnings have been low in relation to those paid in the more progressive industries. In a considerable number of instances, these are consumers' or export industries which underwent severe contraction of labour during the war. The men previously employed in them were heavily drawn upon for the armed forces; the women, and some of the older men, were transferred to work on munitions. This war work was much better paid than the work on which these men and women had been previously engaged; and in most cases the conditions, the factory buildings, and the amenities in the form of canteens, welfare work, and the like, were also greatly superior. When work ceased in the war establishments, there was naturally a widespread reluctance to return to the old conditions of low pay and lack of amenities in squalid or obsolete factories; and even the better establishments in the reopening peacetime industries did not find it easy in all cases to persuade their former employees to return, or to recruit additional labour from among those whose first experiences of factory work had been received under war conditions. It soon became evident that, if the required redistribution of labour was to be brought about without a great deal of friction, it would be necessary to make large improvements in both pay and conditions in the industries which had previously relied on the abundance of workers to get their labour on the cheap, and not to have to bother themselves overmuch about the

[1] For a fuller discussion of this problem, see my pamphlet, *Living Wages*, published by the Fabian Society.

conditions of work. In face of the obstacles in the way of new building, not much could be done immediately towards improving the amenities of the non-war factories, though some firms were able to move over to buildings vacated by war producers, especially on the Industrial Trading Estates. Most firms had to go back, at any rate for the time being, to their old buildings, as soon as they were set free; and these firms especially found difficulty in recruiting labour, and were soon faced with demands for considerably higher wage-rates, more in line with the earnings which it had been possible to make on munitions of war.

In particular, the industries which had been in economic difficulties between the wars, and had lost labour—though not enough to cure their problems of unemployment—found that the intervention of six years of war, during which there had been practically no recruitment into them of juvenile workers, had made an enormous difference, so that instead of having a surplus, they were confronted with a very serious prospective shortage of skilled workers. The cotton industry, for example, had been accustomed to paying low wages; and its low rates had meant abnormally low earnings because of the long depression between the wars and the large amount of part-time working that had been done. Right up to 1939, despite these low wages, the industry had continued to have more labour than it could effectively use; for there had been no other occupation which most of the young people growing up in the factory towns could enter without leaving home. But during the war many munition works were started in Lancashire in order to make full use of the labour that could be released from the cotton industry; and experience of these factories made many people reluctant to return, or to send their children, to the textile mills. This attitude was reinforced by the bad repute into which employment in the cotton industry had fallen because of the high rate of unemployment that had prevailed in it year after year. In these circumstances, it was evident that the industry would not get or hold the labour it needed without a substantial improvement in wages, even though its output were to fall a long way short of what it had been in the bad times before 1939.

Distributing Man-power under Full Employment

In effect, the situation which existed in 1945–6, while demobilisation was proceeding and a readjustment of activity was being made between industries that had been expanded and contracted during the war, was a foreshadowing of the conditions that might be expected to become permanent if a policy of full employment

were successfully maintained. In the situation which existed between the wars, the total shortage of jobs made it possible for some industries, especially those which were contracting or at all events not expanding, to secure adequate supplies of labour even if they paid low wages and worked under uncomfortable or irksome conditions. Even then, such industries as were expanding rapidly did for the most part raise wages, either because they had to in order to attract more workers, or because the Trade Unions were powerful enough to make them do so, or because they regarded higher wages as a good investment in labour efficiency. But the raising of wages in these industries had little effect on wages in other industries, as long as there was a pool of surplus labour to be drawn upon; and the effect was the less because the stagnant or declining industries were to a considerable extent carried on in different areas from those which were expanding. Moreover, wages in the industries most dependent on exports were kept down by the restricted scope for foreign trade, due partly to depression and partly to autarchic tendencies in other countries.

If, however, there is no total surplus of workers, or if there is even a total shortage, it becomes impossible for industries which offer bad conditions of employment to secure adequate supplies of labour, except where they are able to take advantage of local surpluses that cannot easily move from one district to another. Such a situation might arise, for example, where an area given over mainly to the heavy industries afforded few openings for women, as was the case in South Wales and indeed in most of the coalfield areas before the war. Successful planning of the location of industry, based on the provision of balanced employment for labour of different types, would evidently do away with such special surpluses, and would create a situation in which any improvement in wages and conditions in one section of industry would tend to spread to the rest. Not only the workers in the expanding industries, but nearly all workers, would be placed in a favourable position for bargaining, and indeed would be able, even without bargaining, to get low wages increased by the simple method of not taking jobs except on favourable terms. There would still doubtless remain, even in such a situation, pockets of underpaid labour; and the need for a general minimum wage law to deal with the cases of those too weak or unintelligent to help themselves would still exist. But the problem of sweated labour would be nearly solved; and the whole condition of wage-bargaining would be different.

Full Employment and Bargaining Power

If the shortage of labour merely existed, and were not the outcome of a deliberate policy of maintaining full employment, wage increases would no doubt in due course bring about a new equilibrium, based on a more intensive use of machinery in order to economise in the use of labour. If, however, the Government were committed to maintaining full employment, to the extent of total labour shortage, however high wages might rise and however much conditions of work might be improved, there would be theoretically no limit to the power of well-organised Trade Unions to force up the wage-level, to insist on diminution of the hours of labour, or to impose other conditions on the employers. I say 'theoretically,' because in practice a good many other factors besides that of sheer bargaining power would soon come into play. It is, however, the case that, if the State is fully committed to a policy of full employment, the bargaining power of labour is bound to be greatly increased, and that not merely for the workers who are most advantageously placed for improving their terms of employment, but for the entire working class. To the extent to which there is a surplus of capitalist profit that can be eaten into, the Trade Unions will be well placed under such circumstances for eating into it. But obviously, although there is no limit to the possible increase of money wages under such conditions, there is a limit beyond which *real* wages cannot rise unless productivity is also increased. Even before all the surplus profits have been eaten up, there will arise, if productivity does not alter, a shortage of goods, and wage increases will have to be balanced by price increases. If prices are controlled, and are not allowed to rise, profits will vanish, and the consumers will find themselves with unspendable money in their pockets—or rather, with money which they will have to choose between saving and frittering away on the uncontrolled margin of goods and services, of which the prices will rise steeply, creating a corresponding margin of windfall profits in certain sections of the economy.

The Trade Union leaders are, of course, perfectly well aware both of the increased bargaining power which a programme of full employment will confer upon the workers, and of its limits. As long, however, as wage-bargaining continues to be conducted on sectional lines, this latter awareness will not necessarily restrain them from seeking to push wages up, or to bring hours of labour down, to a point at which the main effects are bound to be felt in increased prices. Both during and since the war they have shown much restraint in this respect; but it does not follow that they will be able to maintain this restraint when the shortage of goods

becomes less obvious than it has been hitherto. The real problem of wage-bargaining under conditions of full employment will arise only when the immediate post-war dislocations and shortages appear to have come to an end.

The Need to Plan Wages

When this situation does arrive, there seems to be no escape from the necessity of planning wages, as well as production, instead of leaving them still to be settled by methods which were appropriate enough in an unplanned economy, but are bound to become unworkable when the community is working in accordance with a general plan of full employment. It will have to be part of the plan to determine, as parts of the same decision, what the level of prices is to be and how much can be paid out in wages, as well as in interest and profits, in order to clear the market of consumers' goods without leaving a surplus of unspendable purchasing power over and above what the recipients of income are prepared to save for investment in capital goods. To some extent, no doubt, taxation of incomes can be used as an instrument for bringing about the required balance; but it can hardly be the sole instrument. Where every important body of workers is in a powerful bargaining position, there will have to be a national wages policy which will assure the workers that they are getting as much as the national economy can afford, if they are to be deterred from trying to get more than it can afford in the belief that they are getting less.

Wages and Exports

The dependence of Great Britain on imports of food and raw materials, which have to be paid for with exports, introduces a complication. In the absence of higher productivity, higher wages or shorter working hours are bound to react on the money cost of exports. If the foreign exchanges were free to fluctuate, the balance could be, and would be in due course, set right by changes in the external value of the currency, which would prevent the price of exports from rising unduly in terms of foreign money. If, however, the rates of exchange are practically fixed, as they are meant to be under the Bretton Woods Plan, any increase in the money cost of exports will raise their price to foreign buyers, and will thus tend to reduce the quantities sold. Great Britain, however, cannot afford to face a loss of export trade; for it will be all we can manage to market enough exports to pay for the imports of foodstuffs and raw materials that will be indispensable for maintaining full employment. One way out would be to

subsidise exports; but this is likely to be disallowed by the trade terms attached to the American Loan. Accordingly, costs in the export trades will have to be kept down to levels which will not result in a loss of overseas markets. This, however, can hardly be achieved unless wages in the exporting industries are controlled; and, if wages have to be controlled in one large section of the economy, it will hardly be practicable not to control them elsewhere.

The purpose of this argument is not to show that wages cannot be allowed to rise, or working hours to be reduced. Of course, they can be, but, except within narrow limits, only if productivity is increased. The purpose of a planned wage policy should be to ensure that wages are raised, or conditions improved, to the full extent rendered practicable by the rising productivity of industry.

The Roots of Productivity

This, however, raises a further set of problems. Productivity depends on a number of interacting factors—on inventiveness and success in applying scientific discovery to the industrial arts; on the skill, initiative and expansionist attitude of employers and business executives; on the adequacy of capital resources available for the improvement of industrial techniques; on the skill and dexterity of the labour force and on the provision of the right amounts of trained labour of different kinds; and on the attitude of the workers to their jobs and their acceptance of responsibility for achieving a high level of output. To get these forces rightly adjusted to the new conditions of planned production and full employment is a highly complex matter, and involves a number of different kinds of social action. It requires, in the first place, not only a great expansion of applied scientific research in the branches of production which have been neglected during the war —and some of them for a much longer period. It involves a shift of emphasis in basic as well as in applied science to those types of work that are appropriate to a world at peace. It involves better training and selection of those who are to hold positions of executive responsibility, either in the public service or in private business. It involves the planning of investment, so as to ensure both the adequacy of the total supply of capital and its right distribution among rival claimants, in accordance with conditions of public advantage that may not coincide with the dictates of profit-seeking. It involves better vocational selection and better training of labour, and above all of the new highly scarce factor of juvenile labour. And, finally and beyond everything else, it involves a change of attitude, not only among the manual workers, but in

every class or group that has any influence on the efficiency or inefficiency of any part of the productive system.

P.M.H. and Incentives

Yet the problem of production—'P.M.H.' or 'per man-hour,' as it is sometimes called—is often written about as if it were simply a matter of the incentives offered to manual workers and of their willingness to give of their best. No one will deny that these are most important factors; but the workers cannot do good work or produce a high output unless they are helped to acquire the right skills and dexterities and given the right tools to work with, and good conditions in their places of work, or unless the factories and other productive enterprises are well managed and well adjusted one to another within a general framework of good economic organisation. These are all technical aspects of the problem of production. With them go the human aspects, which can be summed up by saying that neither managers nor workers will give of their best unless they feel that doing so is worth while, not only in the material sense of yielding an improved pay-packet or a better chance of advancement in life, but also in the sense of having a purpose which they can understand and regard as their own. The incentives to good work are a mixture of the material and the ideal; the ideal need not be a socially desirable ideal, but it must be present in men's minds, or the material incentives will fail to work. Thus, the *entrepreneurs* of the early nineteenth century, hot as they were on the main chance, did not work purely for monetary rewards, or even for power. They believed in what they were doing, and felt themselves to have a mission to get the utmost out of the new machines which were under their command. That this ideal led them to treat their human employees as machines does not make it less an ideal, though in our eyes it may greatly mar its social quality. The thing to appreciate is that these *entrepreneurs* would have been much less efficient, even with precisely the same material equipment, if they had not idealised what they were doing, and made a virtue of it.

This was often called 'hypocrisy' on their part, by critics who saw how ruthless they were in the use of their human instruments. But it was not hypocrisy, in any ordinary sense of the word. It was one-eyedness—a quality which is associated with most, if not with all, forms of practical idealism. The same ruthlessness appears to-day, not only in the United States, which is acting over again so much of the history of early capitalism in Great Britain, but also in the Soviet Union, where it is associated, not with profit-making, but with the drive to build up the new kind of society of

which the Soviet Union is regarded as the embodiment. Ruthlessness in the use of human instruments need not be connected with, much less based upon, sheer greed or egoism: it is often a by-product of ardent belief.

The problem of incentives in Great Britain is difficult just because, in the British economic activity of recent decades, there has been almost nothing to believe in. Some spirit of belief did indeed come back during the years of war, when economic effort was directed to an easily understood and widely accepted purpose; but there was little enough of it before 1939, and the revival of the war period cannot be made lasting unless a fresh purpose can be found to animate the production drive. The basis for such a purpose does exist in the sheer necessity of a high level of efficiency in order to procure necessary foodstuffs and raw materials from abroad, with a sharp fall in standards of living as the unavoidable penalty of failure. But the understanding of this necessity has not yet come home to more than a small proportion of either workers or managers; and even those who rationally understand it have in many cases not yet translated it into an ideal for which they are prepared to work their best.

Incentives in Transition

This failure to translate a rational conclusion into an operative ideal is mainly due to the essentially transitional character of the British economy in its present phase. It is not only a mixed, but also, from the standpoint of its human appeal, a muddled economy, lacking in clarity of either objective or method. It has not escaped from the limiting conditions which led so many *entrepreneurs*, between the wars, to aim at safety first rather than at new constructive achievement, and thus fostered the growth of monopoly and of restrictive trade association in both productive and distributive operations. These monopolistic tendencies were due, in the main, not to any exceptional greediness of nature among business men, but to want of faith in the consequences of expansion. In a capitalist world everywhere beset by slump and market limitation, it did not seem worth while to attempt to increase productive efficiency, and accordingly men's minds turned to the sterilisation of new discoveries and to the regulation of marketing by the restriction of supply.

Similarly, on the workers' side, higher production seemed all too often to point the way to increased unemployment rather than to greater prosperity; and the notion of limiting the day's work caught hold because there was no ideal to oppose to it. The ideal incentives thus faded away at the time when the sheerly material

incentives on which much reliance had previously been placed were losing force under the impact of humanitarian reforms pressed for by democratic sentiment. Social security was sought more and more for the individual citizen, and less and less for the society as a whole. Yet the individual's security is bound to be illusory unless it rests on a foundation of prosperity in the economic affairs of the whole nation.

I am not suggesting that we ought to go back to the old ruthlessness, or to set out to create a new ruthlessness appropriate to the changing conditions of popular government. Far from it. I am suggesting that the key question for the economic planners of our new society is that of giving the producers, in all grades and sections, a new foundation for faith in the worthwhileness of what they are being called on to do; and I am saying that the very gradualness of our attempted transition from a capitalist to a socialist system puts great difficulties in the way of this, because it leaves all classes in doubt about what they are working for, and fails to present them with a clear picture of purpose which they can translate into an ideal basis of action.

The Forty-hour Week

With this wide problem I have dealt to some extent already in those chapters of this book in which I have considered the fundamental issues of current economic policy. At this point I am concerned only with the bearing of these psychological considerations on the problems of wages and working conditions. I have suggested that a planned—or even a partly planned—economy cannot leave wage rates or hours of labour or working conditions to be settled exclusively by piecemeal processes of collective bargaining, trade by trade or industry by industry, and that there must be at the least some general overriding plan that will relate wage-policy and price-policy and investment-policy together over the entire field. In the case of working hours there appears to be a good deal of recognition of this need. The British Trade Union movement as a whole is committed to the demand for the forty-hour week, but it seems to be appreciated that this demand involves considerations which affect the whole economy, and ought to be dealt with, when the moment comes, by general legislation rather than by sectional bargaining. There is also a reluctance, on the part of most of the leaders of the Trade Unions, to press the demand at a moment when it might hamper export trade and delay the escape from the existing shortage of consumers' goods; for, even if in the long run reduced working hours need involve no diminution of total output, in the short run they would inevitably

have this effect in view of the difficulty of providing quickly the new capital equipment needed for increasing output per man-hour.

Wages still appear to most active Trade Unionists to stand on a different footing, because there is clearly no reason why higher wages should reduce output per man-hour, even in the short run, and some reason why they should result in an increase. This, however, is not the whole story; for higher wage-costs might, as we have seen, react seriously on export sales, and even in the home market might upset price relations, especially if they fell mainly on basic industries which affect costs over a wide range. Wages can no more be increased than hours reduced without affecting the entire economy.

The Illogicality of Earnings

It is, however, obviously necessary to reconsider the wage-structure with a view to bringing about a distribution of labour corresponding to the changed requirements of the post-war economy. There is no good reason why average wages in different trades included in the Ministry of Labour's returns should vary anything like so widely as they do: nor do the variations correspond with any exactitude to real differences of skill or of attractiveness in the conditions of employment. A glance at the two Tables on pages 596–7 will suffice to show that there is no logic about the existing wage-structure and that neither men's nor women's wages, as they now stand, are the outcome of anything more than a series of accidents and variations in bargaining strength. Why should the average adult male vehicle-builder have got, in July, 1945, a weekly income of 143*s.* 4*d.*, whereas the average house-builder got only 108*s.* 1*d.*? Why should the average woman worker in the rubber industry have got 66*s.* 10*d.*, whereas the average woman pottery worker got only 49*s.*? No doubt, as the figures show average earnings, and not wage-rates, some account needs to be taken of the number of hours worked. But the substitution of hourly for weekly earnings leaves the broad position unchanged. The average hourly earnings were, for men vehicle-builders 3*s.*, and for men house-builders 2*s.* 2*d.*; for women rubber workers 1*s.* 6½*d.*, and for women pottery workers 1*s.* 1½*d.*

Of course, current earnings reflect to a considerable extent the rise in the relative position of the metal-working trades. But this is not the only factor. Pre-war earnings were also illogical, because in a number of industries they had been driven down by prolonged depression, whereas in a number of others they had been forced up by expansion of total output at a rate much above the average. It is not a question of going back to pre-war rates of wages,

but of working out a new wage-adjustment that will bring about an adjustment of labour supply corresponding to post-war needs.

Admittedly, this cannot be easy to achieve. It will not be achieved at all, except in the very long run and after a great deal of undesirable friction, unless the Trade Unions become convinced that the Government is prepared to plan for the highest total wage-level that can be afforded in the light of the ascertained productive capacity of the nation, or unless they are fully taken into confidence and participation at every stage of the readjustment. The securing of the conditions requisite for this process of conviction depends, not only on the number of industries the Government decides to socialise—which is only one factor—but also on its success in imposing effective planning in the public interest on those sections of the economy that are to remain, at any rate for the time being, in private hands. It also depends—in truth, it depends most of all—on the Government's success in making the ordinary worker feel that the basic conditions of the economy have been changed so much that the main reason for his being employed is no longer some capitalist's expectation of making a profit out of his labour, but the necessity of his job as a contribution to the maintenance of the standard of living of the British people, including himself, his dependants, and his friends and neighbours.

WEEKLY EARNINGS IN CERTAIN GROUPS OF INDUSTRIES, OCTOBER, 1938, AND JULY, 1945

Men over 21	*1938* s. d.	*1945* s. d.
Paper and printing	84 3	
Government industrial establishments	75 3	127 1
Metal, engineering and shipbuilding	75 0	133 0
Transport (except railways)	70 0	114 10
Chemicals	69 3	122 10
Miscellaneous manufactures	69 1	126 6
Woodworking	66 3	110 7
Building	66 0	111 4
Food, drink and tobacco	65 3	110 4
Clothing	64 3	110 8
Leather	64 1	107 6
Bricks, pottery and glass	63	111 1
Public utility services	63	98 6
Iron-mining and stone-quarrying	60 0	103 6
Textiles	57 3	104 7

Women over 18	*1938* s. d.	*1945* s. d.
Government industrial establishments	44 9	80 11
Leather	34 11	54 6
Transport (except railways)	34 11	81
Paper and printing	34 1	54
Woodworking	33 8	62
Metal, engineering and shipbuilding	33 4	69 1
Food, drink and tobacco	32 11	56 7
Clothing	32 9	55 7
Chemicals	32 8	62 10
Textiles	31 9	58 2
Miscellaneous manufactures	31 9	63 7
Bricks, pottery and glass	27 10	51 9
Public utility services	27 8	51 5

Men over 21

	s.	d.
Shipbuilding	145	6
Vehicle-building	143	4
Rubber	135	9
Steel-smelting	135	0
Miscellaneous metal manufactures	133	8
Blast furnaces	131	1
Tinplate	130	8
Docks	129	11
Electrical engineering	129	4
Scientific instrument making	129	4
Electrical apparatus making	128	1
Government industrial establishments	127	1
Constructional engineering	127	1
Tailoring	126	10
Tube-making	126	7
Printing	125	10
General engineering	125	5
Chemicals	125	3
Hand tool-making	125	0
Nut and bolt making	124	8
Marine engineering	124	4
Coke ovens	123	5
Miscellaneous manufactures	123	2
Wire trades	122	8
Flour milling	121	7
Tobacco trades	121	1
Glass	121	0
Paper trades	120	6
Iron founding	119	6
Oils, glues, etc.	118	8
Public contracting	118	8
Hosiery	116	1
Furniture	115	0
Road transport (goods)	114	11
Road transport (passenger)	112	2
Electricity supply	111	8
Baking	111	4
Silk and rayon	109	1
Gas	108	9
Miscellaneous food trades	108	5
Leather	108	3
Building	108	1
Cotton	107	1
Boots and shoes	107	0
Saw-milling	106	8
Brick-making	105	5
Drink trades	105	2
Pottery	104	3
Dyeing and bleaching	102	7

Men over 21

	s.	d.
Water supply	100	7
Woollen and worsted	99	8
Quarrying	98	11
Flax	91	5
Local authority services (non-trading)	91	0

Women over 18

	s.	d.
Road transport (passenger)	83	6
Government industrial establishments	81	1
Vehicle-building	78	2
Steel-smelting	71	10
Non-ferrous metals	70	0
Scientific instrument making	69	3
General engineering	68	9
Rubber	66	10
Electrical apparatus making	65	6
Chemicals	64	11
Electrical engineering	64	9
Cotton	64	1
Bolts and nuts	64	0
Tobacco trades	63	6
Silk- and rayon-weaving	63	3
Miscellaneous metal trades	62	9
Rayon-spinning	62	8
Dressmaking	62	1
Miscellaneous manufactures	61	3
Oils and glue trades	59	8
Hosiery	58	0
Boots and shoes	57	9
Tailoring	57	7
Cocoa and chocolate	57	3
Miscellaneous textile trades	56	5
Baking	55	6
Miscellaneous food trades	55	2
Woollen and worsted	55	1
Glass trades	54	1
Printing	54	1
Boxmaking	54	1
Laundries	52	5
Drink trades	52	0
Shirt- and collar-making	51	0
Dyeing and bleaching	50	5
Local authority services (non-trading)	49	1
Pottery	49	0

CHAPTER VIII

HOUSING, PLANNING, AND THE LOCATION OF INDUSTRY

THE FIRST THING TO BE borne in mind about houses is that they are normally built to last a long time. There are exceptional cases, of course—from hutments for occupation while a particular job is being done, such as building a great dam or cutting a canal or executing some big temporary work in time of war, to the temporary bungalows which are being provided as a means of easing the immediate housing shortage. But these cases stand apart from the main body of house-building, in which the houses, whether they are constructed well or ill, are generally expected to last over a long period of years. We are suffering to-day, not only from an absolute shortage of houses, but also from a mass of shoddy houses still in occupation, though they have long outlived their period of real habitability—if indeed they ever had one, by any tolerable standard of living amenity. When the war broke out in 1939, roughly one-third of all the houses in Great Britain were as much as eighty years old.

Some of them, of course, including some of the best, were very much older—hundreds of years old. But I am not speaking now of fine old houses which we can reasonably wish to preserve for their beauty and as monuments of the past, or even of quite commonplace well-built houses that can be modernised so as to make excellent homes, but of the common ruck of dwellings built in the early nineteenth century and the Victorian age to house the common people. Immense numbers of these houses, crowded together so as to save land, devoid of the common conveniences and often of light and air, in many cases sheerly insanitary, and in most cases hideously drab, are with us still. Between the two wars we succeeded by a series of efforts that seemed terrific at the time in building about four million houses of all sorts. There remained about the same number that had been standing eighty years or more, and about the same number built during the six decades which ended in 1914—most of them during the earlier part of this period.

The Economics of Housing

There are two main reasons for bearing continually in mind that houses are built to last. One is that capital sunk in house-building is locked up over a very long period. From this it follows that the rate of interest at which capital can be borrowed exercises a very great influence upon housing costs. The house wears out over a long period; but the capital which it represents has to be borrowed all at once, at whatever is the prevailing rate of interest for such loans at the time when it is built. The rent is fixed so as to cover the interest charge and wipe off the capital over a period of years.[1] The rents charged for new houses therefore depend largely on the long-term rates of interest current when they are built, as well as on current construction costs; and under ordinary conditions the rents chargeable for new houses (or their selling prices) naturally exert a strong influence on the rents (or selling prices) of older houses. This influence may be upset, as it has been in recent times, by legislation controlling rents; but it operates whenever rent-levels are allowed to move freely. It is accordingly of the greatest importance, if we want to keep rents down, to make it possible to get capital for housing at low interest rates—a consideration which, as we shall see, has a most important bearing on present house-building policy.

Housing Standards and Housing Costs

The second reason why we need to bear in mind the durability of houses is that housing standards, at any rate in the modern world, do not stand still. For some time past we in Great Britain have been steadily advancing our notions of what a house ought to be if it is to be regarded as an acceptable addition to our existing stock of dwellings. This advance takes many forms. We are coming to demand (though we do not always get) better actual building and better materials than were thought good enough for working people in the Victorian age; and at the same time we are demanding more space per person both in the house and around it. We are improving on past notions of overcrowding, and we are also coming to insist on new houses being built fewer to the acre.

[1] No doubt it may be possible, later, if the rates of interest fall, to convert part of the capital locked up in house-building to a lower rate, and thus to reduce the economic rent. This applies especially to local authorities, which can borrow in the first instance for shorter terms than the expected lives of the houses built with the borrowed money. If, however, interest rates are higher instead of lower when the loans fall due, re-borrowing will raise the economic rent instead of lowering it. Where houses are built for sale and not for letting in the first instance, the prices charged for them are based on current long-term interest rates.

We are also gradually raising our standards of fittings and amenities. It has become a commonplace that every house we build ought to have a lavatory of its own and even a bathroom; and we say nowadays that there ought to be somewhere to keep the coal and the pram, tolerable cupboard accommodation and kitchen equipment, and a number of other things, such as electric light, that nobody used to dream of. Probably our standards—which we often fail to live up to—will seem in some respects grossly inadequate to the next generation; but it can be taken as certain that many of them will have to live in the houses we are setting out to build, just as many of us live in obsolete houses built by the generation before us or even by the generation before the generation before that.

Our housing standards do not stand still; but our housing costs do not stand still either. Even apart from changes in the costs of building a fixed standard type of house, any advance in standards usually means an increase in cost. In the case of many other commodities—motor cars, for example—rising standards have gone with falling costs, because mass production has led to vast economies. But on the whole, so far, this has not happened with houses. Their money cost has indeed fluctuated enormously with changes in the prices of materials and of labour, as well as in the price of capital—that is, the rates of interest at which the capital for building them has been borrowed—and in the efficiency of the building industry, which is at present particularly low. But there has been no steady tendency for the real costs of houses to fall, because there has been no technical change that has led to less labour or materials being used up in building them. A modern motor car both contains less material than a motor car of a generation ago and requires much less labour to make. A house, if it is to come up to modern standards, is much more likely to require more, or at any rate more costly, materials and a larger number of man-hours of labour in building it. We are often told that pre-fabrication will speedily alter all this; but it has not done so hitherto to any noticeable extent.

These facts are vitally important in relation to housing policy, because, whatever standards we lay down as the necessary minima for new house-building, we are in effect saying that an expenditure which will provide a house up to this standard is to be regarded as a necessary element in everybody's cost of living, at any rate as soon as the houses can be provided. But what is to happen if the incomes of a large part of the people will not stretch to paying for houses of the prescribed standard and leave enough over to meet the other necessary costs of decent living? This is the

difficulty which has been facing us now for a considerable time. On the whole, between the wars, we met—or evaded—it by building houses up to a standard which was too high for the ordinary wage-earner to be able to rent them without the aid of a subsidy, or in many cases even with the subsidies which the State was prepared to provide. Consequently, the bulk of the new houses built between the wars were occupied by relatively well-to-do households, and the poorer households went to live—or went on living—in the older houses, which were mostly inferior in standard besides being old. There were exceptions in the case of houses built definitely in connection with slum-clearance schemes; but in these cases higher subsidies had to be made available in order to bring the rents down to a level which the cleared slum-dwellers could afford, or could be deemed able to afford, to pay. In the main the poorer wage-earners lived in second-hand (or sixth- or seventh- or twentieth-hand) houses, including many old big houses which had been cut up into tenements or were simply occupied by a host of separate tenants without any physical adaptation at all. It is notorious that these obsolete mansions often made the worst slums. And it should be equally notorious that many slum-dwellers, cleared out of such places and removed with the aid of subsidies to new and sanitary dwellings, found their rents so increased as to leave them too little money to buy food and other things which they regarded as necessary to life, and drifted back, as soon as they could, to crowd into dwellings which had not been condemned, increasing overcrowding and creating new slums in place of those which had been pulled down.

Higher Incomes or Subsidies?

If we determine to adopt a certain minimum standard of housing and to provide all the people with houses up to that standard as soon as we can, we must also do one of two other things. Either we must assure to all the people incomes which will allow them to pay whatever rents will cover the cost of these houses, or we must subsidise housing in such a way as to bring rents down to levels which people can afford to pay without going unduly short of other necessaries and of such 'extras' as they regard as necessaries and put before some of the unquestioned necessaries in making up their household budgets. I do not mean, of course, that if a man takes to drink and so cannot pay his rent, we must pay it for him; but I do mean that we must include in our conception of the necessary costs of living a reasonable sum for 'extras.' No *particular* 'extra' may be a necessary; but some money to spend on the 'extras' that one fancies is necessary, and

has rightly been included by Mr. Rowntree, in his more recent studies,[1] among the 'human needs' of the people. We must not fix rents for a minimum of standard accommodation at such a level that a large number of people will be driven, after paying them, to choose between going without 'extras' of reasonable amount and going without adequate food and decent clothing for themselves and their children.

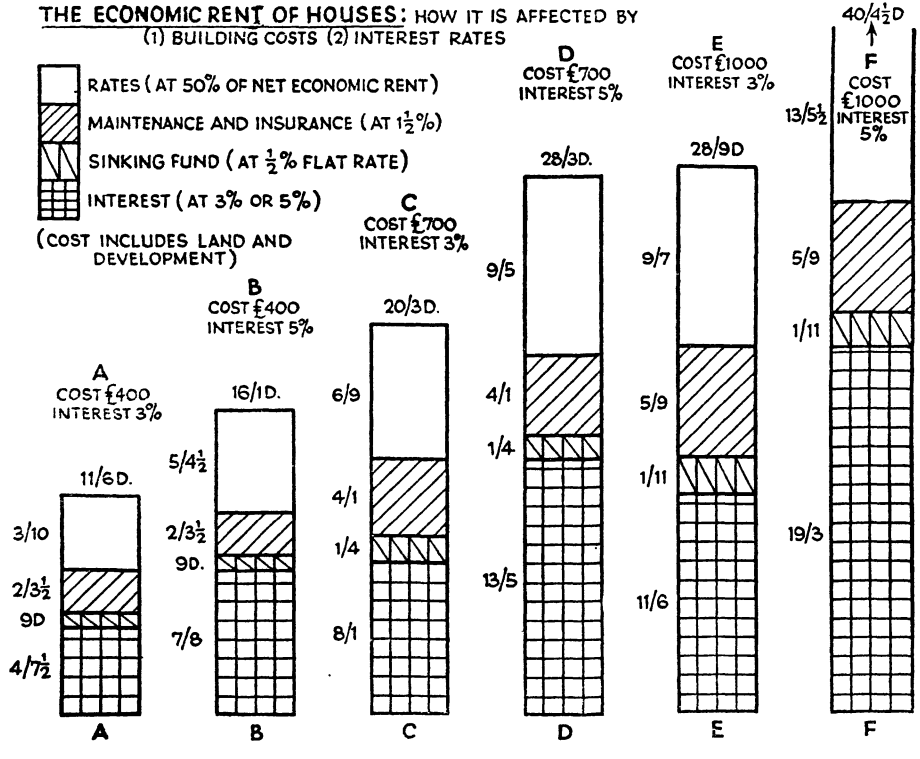
Probably this general statement will be generally accepted. But consider what it means. If a house costs £500 to build, and the cost of land, sewers, roads, etc., comes to another £100, and if the capital has to bear a total charge of 5 per cent. for interest, amortisation and 'other costs'—to which we will come later—we have already a charge of £30 a year, exclusive of local rates, for the house, quite apart from water, gas or other fuel, or current repairs. There already is a rent-charge of more than 11*s.* 6*d.* a week; and such a charge, when we have added to it the cost of repairs and maintenance, and local rates, clearly gives us a gross rent which is far beyond the means of a very large part of the population, even at the existing rate of earnings, increased as it has been by 'full employment' under war conditions. Yet the figures I have used by way of illustration are a long way below not only current housing costs, which are inflated by war scarcities, but also below any levels of cost which look at all likely in the period upon which we have entered since the war ended.

Rents and Interest Charges

Sir Ernest Simon, in his recent book on the housing problem,[2] has pointed out that in Manchester, whereas the average slum-dweller pays about 2*s.* 6*d.* a week in local rates, the same tenant, if he moves out to a new house built up to the current ('Dudley') standard, will have to pay about 6*s.* 3*d.* a week in rates alone. He has also pointed out that the cost of building a house has much less effect on the rent than the rate of interest at which the capital is raised. If the cost of labour is doubled, the economic rent is raised by 28 per cent.; if the cost of materials is doubled, the rise in rent is 37 per cent.; if the rate of interest is doubled, the rise in rent is 70 per cent. Clearly, if we want the main body of the people to live in decent houses, we must keep down the rates of interest on the capital employed in building them, and we must also keep down the local rates—unless, of course, we prefer to let these

[1] See especially B. Seebohm Rowntree, *Poverty and Progress: a Second Social Survey of York.* 1941.

[2] *Rebuilding Britain: a Twenty-year Plan.* Gollancz, 1945.


THE ECONOMIC RENT OF HOUSES: HOW IT IS AFFECTED BY
(1) BUILDING COSTS (2) INTEREST RATES
RATES (AT 50% OF NET ECONOMIC RENT)
MAINTENANCE AND INSURANCE (AT 1½%)
SINKING FUND (AT ½% FLAT RATE)
INTEREST (AT 3% OR 5%)
(COST INCLUDES LAND AND DEVELOPMENT)
A
COST £400
INTEREST 3%
11/6D.
3/10
2/3½
9D
4/7½
A
B
COST £400
INTEREST 5%
16/1D.
5/4½
2/3½
9D.
7/8
B
C
COST £700
INTEREST 3%
20/3D.
6/9
4/1
1/4
8/1
C
D
COST £700
INTEREST 5%
28/3D.
9/5
4/1
1/4
13/5
D
E
COST £1000
INTEREST 3%
28/9D
9/7
5/9
1/11
11/6
E
40/4½D
F
COST
£1000
INTEREST
5%
13/5½
5/9
1/11
19/3
F

charges rip, and to pay huge subsidies in order to bring down the rent to much less than an economic level.

Public versus *Private Housing Enterprise*

One moral is obvious. There is only one way of getting houses built at the lowest interest levels consistent with current financial conditions. That is for the State or some agent working directly under it to undertake the financial responsibility, so that the money can be made available at the gilt-edged rate at which the State alone, or almost alone, can borrow. Doubtless, some of the big municipalities can borrow almost as cheaply as the State itself, and where they can do this all is well. To other local public authorities the State can extend the supply of cheap capital by allowing them to borrow through the Local Loans Fund—and it might well, for housing purposes, allow them to do this without charging them anything over and above the rate of interest which the State itself is paying. The same privilege could be extended to the special Corporations which are to undertake the building of new towns under the Act of 1946, and to the non-profit-making Housing Societies, on a co-operative basis, especially where they are proposing to erect new Garden Cities or Suburbs or Garden Villages on lines that fit in with national and local housing and planning policy.

As against this, what cannot be done, without extravagant subsidies, is to get houses built at low interest rates by profit-seeking private enterprise. If the speculative builder is left to raise the capital, he is bound to have to pay a much higher rate of interest than need be paid by a public body which can offer complete security. This remains true even if the long-term capital is raised through a Building Society or some similar agency; for any such indirect form of finance necessarily works out much more expensive than finance provided directly with the aid of the public credit.[1] I therefore conclude without hesitation that the main body of new housing will have to be carried out directly under public auspices. Even if private builders are called upon to build the houses under contract, the State or some other public authority will have to order them, own them, and pay for them on the basis of the public credit.

This is the policy which the Labour Government of 1945 has clearly set out to follow, in face of loud squeals from those who had hoped to make large profits out of the finance of house-building, as distinct from the actual erection of the houses. Mr.

[1] See for a fuller development of this question my booklet, *Building Societies and the Housing Problem.*

Aneurin Bevan's policy has been, first, to ensure priority for the smaller houses which are most urgently needed by fixing a maximum figure of cost above which no licences are at present issued for private building, and secondly to concentrate most of the building of small houses in the hands of the local authorities, with the aid of large public subsidies to offset the very high level of building costs. The number of houses actually built up to the end of 1946 (the date of writing) has been terribly small; but this is not Mr. Bevan's or the Government's fault. It is an unavoidable consequence both of the almost complete suspension of house-building and the sharp fall in the man-power of the building industry during the war, and, as we shall see, of the failure of the previous Government to make any adequate preparations for getting production, including production of bricks and other components, restarted promptly when hostilities in Europe came to an end.[1]

Costs and Rents

What level of rents, inclusive of local rates, we should aim at in our present building programme of course depends on what the levels of wages and prices generally are to be. As we cannot yet tell at what levels these will settle down, we can usefully speak here only in terms of pre-war levels, leaving the figures to be adjusted, as Sir William Beveridge meant his social service benefits to be, to post-war prices. Let us ask, then, what rents tenants belonging to the lower income groups could have been reasonably expected to pay in 1939, on the assumption that there had then existed a system of family allowances at the rate of 5*s*. for each dependent child except the first. Again we can usefully have recourse to what Sir Ernest Simon has said. He points out that under the slum-clearance scheme instituted by the Housing Act of 1930 and maintained by subsequent Conservative Governments the average cost of a standard house was £400, giving a rent of 8*s*. without rates, and the average rate-charge was 4*s*. over the whole country. (It was of course much higher in many areas.) The average rate of subsidy provided from public funds was 6*s*. a week, leaving 6*s*. for the tenant to pay. Post-war houses will, however, if present proposals are carried out, be built to a higher standard, which will involve higher costs quite apart from any rise due to changes in the prices of materials or labour. At least another £100 must be added on, at pre-war levels, to allow for this factor, raising the gross rent to 14*s*., even without allowing for

[1] About 50,000 permanent and 96,000 temporary houses were in fact finished by the end of 1946.

any rise in rates. The subsidy, on the pre-war lines, would therefore have to be 8*s.* instead of 6*s.* If the incomes of the tenants rise on the whole neither more nor less than the price of getting a house built, their ability to pay rents may be regarded (on the doubtful assumption that they could just aff rd what they were actually paying before the war) as increasing enough to cover the rise in the price of building, as distinct from the increase in cost owing to the adoption of higher standards; but there will be, even on this showing, an average subsidy of 8*s.* a week needing to be found wherever dwellers in sub-standard houses move to standard houses under the post-war housing scheme.

Moreover, this calculation is much too favourable. Unless there are very great and speedy changes in building technique, building costs are likely for some time to come to be higher than pre-war costs by much more than the rise in the average incomes of tenants. Local rates also are likely to be higher, unless the Government does much more than it has yet shown any sign of meaning to do to transfer burdens from local to national taxation. In fact, on the facts so far considered, an average subsidy of 8*s.* a week—which, for replacing four million obsolete houses, would mean a total subsidy of over £100,000,000 a year—seems certain to be much too little. But it will probably appear both to Chancellors of the Exchequer faced with many other claims and to a good many other people a great deal too much.

What, then, are we to do? We have to make up our minds what standard of housing we do regard as forming part of our idea of a national minimum of civilised living, and then we have to set to work to make enough houses of approved types available for all the people at rents they can afford to pay. The higher we put our standard, the more formidable this task will be, not only because each new house we build will cost more to build in materials and human effort, but also because there will be more sub-standard houses to be replaced.

Population Trends and the Demand for Houses

At this point we encounter the argument that, if the population of Great Britain is destined to fall rapidly during the next few decades, we shall not need many new houses after all, and shall be in a position to scrap some of our obsolete houses without replacing them. This is a thoroughly misleading argument. The fall in population, even if it continues—which is doubtful—will be associated much more with a reduction in the size of the average family than with a reduction in the number of families needing separate houses. True, the rising number of elderly persons will

mean that there will be a larger proportion of households in which there are no children, but only an elderly couple or perhaps a single elderly person with or without some relative living in the same household. This may well affect considerably the types of houses we decide to build, but not the number. Again, it may be argued that, as people are tending to have smaller families, they can make do with smaller houses, and that the 'Dudley' standards of accommodation are too high. But this is to ignore the extent to which we have hitherto permitted overcrowding in the case of large families. Moreover, it is pertinent here again to bear in mind that houses are built to last a long time. Are we accepting as permanent the decline in the birth-rate to the low level of recent years, or are we looking for an increase as men and women are able to take a more hopeful view of the future and to have more children without feeling that each additional baby worsens the prospects in life of those who have already been born? If we are planning for larger families, it would be highly anomalous to plan for smaller houses for them to live in.

The Size of Houses and the Size of Families

The question, however, is not quite so simple as this; for families do not stay the same size. The usual graph of family life shows an increasing size as the children are successively born, a period of stable size, and then a fall as the children leave home and set up for themselves. Why, it is sometimes asked, should we build most of our houses to hold a family of 'standard' size, with the consequence of overcrowding in some cases and rooms to spare in others, when we know that most families are not of 'standard' size but either above or below it—and more below than above? The answer to this question depends on the amount of moving from house to house we expect people to do as the size of the household changes. This is a highly complicated question. It is obviously easiest to move (*a*) where the house is rented and not owned; (*b*) where there are in the same immediate neighbourhood larger and smaller houses available, so that people can move without losing their friends or changing their social environment; (*c*) where there is no special attachment to the house, such as may arise either when it has been long occupied or is associated with some particular event, or where, say, a keen gardener has made himself a garden that he loves. It is impracticable to treat people as mere bundles, to be packaged in houses into which they can just be fitted. A house is, or should be, a home, to which in many cases powerful sentiments become attached. This is not to say that we ought to make moving difficult, or to lay our plans so as to

prevent it. That is what does happen when people become house-owners, not because they want to own their houses, but because there is no other way open to them of getting a suitable roof over their heads. No, we ought to make *voluntary* moving easy, for all sorts of reasons—for one thing, in order to make it easier for people to move in search of a better job, and to live near their work. What we must not do is to base our housing plans on the assumption that people can be *forced* to move into houses that are considered just the right size for them. Why should not a working-class mother, just as much as a middle-class mother, have a spare-room where her married children can sleep when they come to see her? Why should the parents have to break up the home, unless they wish to, when the children have gone away?

Naturally, I am not suggesting that the parents should be allowed to keep a larger house than would hold them without overcrowding unless they are prepared to pay the rent appropriate to that particular kind of house, with neither more nor less subsidy than is given to other people who live in similar houses. Nor am I saying that we ought to build *all* our new houses of a 'standard' size. On the contrary, we most certainly ought to mix them up, and to build houses of as many different sizes as possible (but all of satisfactory quality) in the same neighbourhoods and on the same housing estates. We ought to build an adequate number of small, labour-saving houses for elderly couples and for single persons, so designed as to make living conditions as easy as possible. We ought to build some specially large houses for big families, or for those who are prepared to pay for more accommodation because that is what they value most. We ought to provide some houses with large gardens and others with none at all, but with full access to communal gardens. We ought to build some flats, especially in the crowded parts of towns for people who must live near their work, and also for unmarried persons and for young couples who prefer to start life in a flat and move on to a house when they have settled down and need more room, including garden space for the children under the mother's eye. Our housing programme needs to be, not uniform, but exceedingly diverse; but I doubt if its diversity will be found to achieve much in the way of reducing the average cost per house built.

The Financial Dilemma

We come back, then, to our financial dilemma, which we may now restate in a rather different way. In the case of most goods and services, we prefer to leave it to ordinary persons to decide how to distribute their incomes between alternative things that it

is open for them to buy. We do not say to them that they must attend the cinema so many times a month, or that they must eat so much fish or drink so many pints of milk, or take a week's holiday at the seaside, whether they want to or would much rather spend the money on something else. In general, we trust to people's common sense to make the use that suits them best of their incomes; and if some of them choose foolishly we reckon that it is better to let them do so than to start ordering them about too much. (When I say 'we' and 'them,' I mean, of course, by 'we' those who take an active interest in political questions, and by 'them' everybody, including those who take this interest.) 'We' do not, however, take the line that there should be no interference with people's freedom in this respect. 'We' ordain a minimum of education which every child must have even if its parents would sooner send it out to run errands, or neglect it altogether; and we fine, by way of taxes, people who show a disposition to spend a large part of their incomes on whisky, or beer, or tobacco.[1] The present question is whether house-room is one of the things we can safely leave people to buy as much or as little of as they please, or whether we are to insist on their living up to a certain minimum standard of accommodation for themselves and their dependants. 'We' have already, by our building by-laws, our legislation against overcrowding, our general housing laws, and our schemes of slum-clearance, decided this question in principle, in the sense that housing is a matter in which the State must intervene to enforce minimum standards. The only questions that remain are (*a*) what these standards are to be, and (*b*) how much help the State is to give to people who can ill afford, or cannot afford at all, to live up to them without help.

Houses versus *Other Goods*

In discussing these questions, we have to consider, not housing alone, but the claims of housing in relation to all other claims on the national power to produce useful things. Given 'full employment,' and on the assumption of any given level of productive efficiency, we have altogether the power to produce, over a certain period of time, x units of things—our unit being fundamentally a certain complex amount made up of raw materials and man-hours and use of existing capital equipment. For convenience, and because we have no better way of expressing it, we express this unit in terms of money cost at a certain level of average prices. Now, suppose we have, in the period for which we are making our plans, a total productive power of £x millions, what fraction

[1] For a further discussion of this problem, refer back to pp. 450ff.

of £x millions can we afford to devote to house-building? That is the fundamental question that needs to be answered before we can formulate a reasonable housing policy.

Such a question does not admit of a *scientific* answer, which everyone who understands it will be bound to accept. Just as we may differ about the amount of schooling (which also uses up part of our £x millions) we think the children of the nation ought to have, in face of other claims on our resources which cannot all be satisfied, so we may differ about the housing standard which it is reasonable to adopt as against other ways of using up the resources needed for giving effect to any standard that we choose.

Housing and the Demand for Capital

In practice, the question does not face us quite in the way in which I have just stated it. We do not consider directly how much housing we can afford as against everything else lumped together. We break the question up, and consider in the first place how we had better divide our £x millions into two parts, one for producing ordinary consumers' goods and services that will be used up in single acts of consumption or over short periods, and the other for producing what are called 'investment goods'—that is, capital goods for use in further production and 'durable consumers' goods,' such as houses, which are used up only over a long period of time.[1] This gives us, instead of our undivided £x millions, two sums, £y millions and £z millions, which together equal £x millions. Any houses we build will have to come out of our £z millions, as they belong to the class of 'investment goods,' goods capable of yielding a return over a long period. We have now to weigh the claims of housing, not against all other claims, but only against other claims to a share in £z millions. We have to weigh houses against factories, power-stations, roads, bridges, shops, docks and harbours, aerodromes, town halls, schools, theatres, halls and community centres, land-drainage and other land-improvement schemes, water supply, and anything else which produces durable capital assets. We can, however, narrow the question somewhat more. The claims of housing are in competition with all these other claims, as they are in the last resort with the claims of immediate consumption; but they are most directly in competition with those other claims which will require the same kinds of resources—the same kinds of technical and manual skill, the same materials, the same kinds of capital equipment. This is so (*a*) because in the short run we cannot increase at more than a very restricted rate the supply

[1] For this distinction and its implications, see pp. 315f.

of these things, or at all events of the technical and manual skills needed, which are the crux of the problem, and (*b*) because, even if we could, it would be most undesirable suddenly to expand a particular industry to a prodigious size and then to contract it greatly a little later, when we regarded some other form of expenditure as having more urgent claims upon a share in our £*z* millions.

What this means, in effect, is that, in making up our post-war housing programme, we have to consider, first, what proportion of our £*z* millions we can afford to devote to housing, and secondly, what proportion we can in practice so devote without using up an undue proportion of the *specialised* resources that we have, or can quickly produce, and without causing dislocation later, if we suddenly decide to switch over to something else. In this particular case, we clearly do not want all the houses we can possibly build, if that means getting no new schools or factories. We have to weigh the need for houses against the need for other buildings as well as, more generally, against the need for other investment goods of all sorts.

Other Building Needs

Now, it is evident that, in face of the diversion of our resources to unproductive uses during the war, there exists a need for a great deal of new building of many different kinds. We are already committed to an educational programme which calls for the building of a great many schools and colleges, and for the enlargement and improvement of many more. We are committed to the building of new factories and Industrial Trading Estates in the pre-war distressed areas. We have a great many damaged industrial, commercial, and other non-residential buildings, as well as houses, to make good. We have big town replanning schemes, which will involve many kinds of building besides that of houses. We shall have to fix an order of priorities for getting all these things done; for assuredly we cannot do all we want of all of them all at once. How much of them we can do at once depends on the capacity of the building industry, which in turn depends mainly on the size of the skilled labour force in the industry and on the economy with which it is used.

There are thus two limits to the amount of housing we can get done—a technical limit and what may be called a 'financial' limit, though it is really a limit set by the total magnitude of our productive resources and the proportion of them we are prepared to spare from making things for immediate consumption and to apply to making 'investment goods.' These are two quite distinct

limits, though they are often confused. Let us now discuss them separately, beginning with the 'financial' limit.

The Supply of Capital

We saw in Chapter II that in 1938 total 'savings' amounted to about £530 millions, of which about £300 millions came from personal incomes and the other £230 millions from undistributed profits of business. As against this, we have to set about £90 millions collected by the State in Death Duties and other taxes on capital and used as part of the State's income for meeting current expenditure. This leaves a net total of about £440 millions in 1938, *plus* any part of the current public expenditure which was actually spent in buying capital assets. Clearly, all these totals would have been higher if there had been full employment; for the national income as a whole would have been increased, and this would have resulted in a larger volume of saving. Indeed, full employment could not have existed in 1938 unless there had been a larger volume of investment, which connotes a larger volume of saving, public or private. About £800 millions of outlay on investment would have been necessary as a minimum to create the requisite conditions for full employment.[1]

Our £*z* millions, then, may be taken as at the least £800 millions in 1938, at 1938 prices. How much it will need to be in future no one can say; for that must depend on the level of post-war prices. Let us continue to call it £*z* millions. How much of this £*z* millions can we afford to devote to housing? In 1938 we devoted approximately £350 millions to private buildings of all sorts, of which about £105 millions was for replacements and renewals and does not appear in our total of new investment. On the other hand, the £350 millions does not include *public* expenditure on buildings, and thus excludes municipal housing schemes. From other sources we know that the total spent on new houses alone in 1938 was about £150 millions, and that the number of houses built was about 360,000, or, say, £420 a house, for the actual building, exclusive of the cost of land, roads, sewers, and 'overheads' generally.

Clearly, the need for houses has become much more urgent as a result of the war, not only on account of war damage, but also because normal building has been interrupted for a period of more than six years, so that large arrears have been allowed to pile up. If we had continued from 1940 to 1946 to build at the same rate as from 1933 to 1938, we should have built in these

[1] For the argument behind this statement, see W. H. Beveridge, *Full Employment in a Free Society*, Appendix C (by N. Kaldor), pp. 354 *ff.*

seven years over two and a half million houses, whereas we have in fact built hardly any. We have, on this showing, arrears of at least two millions to make up, quite apart from meeting the current demand of the post-war years. Moreover, in addition to new construction, there are still big arrears of repairs and maintenance, including the thorough repair of bomb-damaged houses, to be made good. I have attempted elsewhere to make a detailed estimate of what the post-war demand upon the building industry is likely to be, and here I have room only to summarise the general conclusions at which I arrived.[1]

An Estimate of the Demand for Houses

On the basis of seven years' arrears of building at the pre-war average rate to be made up, I begin with a demand for two and a half million houses to wipe off these arrears. Add at least half a million for houses damaged past repair by bombing. Add a further 1,500,000 houses needed to do away with the overcrowding which was revealed by the Overcrowding Survey of 1936. Add another half-million for slum-clearance and for the provision of new cottages in the countryside in place of insanitary or hopelessly inconvenient cottages still in use. We have already a total of 5,000,000 houses which are needed as soon as they can possibly be built. But this total makes no provision either for the replacement of obsolete houses, except under slum-clearance schemes, or for the accommodation of the increased number of families for which it is necessary to find accommodation. It is more convenient to estimate for these in terms not of the demand that existed immediately at the end of the war, but of that which seems likely to arise over a period of years. In my earlier estimate, I worked in terms of a twelve-years' building programme, starting as soon as possible, working up as quickly as possible to a peak level, and then maintaining this level over the rest of the twelve years. In other words, realising the impossibility of doing everything as soon as we should like to do it, I worked on the basis of spreading the housing programme as evenly as possible over a twelve-year plan.

I reckoned that, over these twelve years, we should need roughly 600,000 houses to accommodate additional families. This estimate was based on taking, not the total population, but the adult males included in it as the simplest rough test of the accommodation required. I know this test is only rough, but I think it works out not far from what is reasonable. This, added to our previous total, gives us a total demand, over the twelve years, for

[1] See *Building and Planning*, by G. D. H. Cole. Cassell, 1945.

5,700,000 houses, without allowing for replacements either of obsolete houses or of houses demolished in connection with town planning or road improvement schemes, or converted into offices or put to other non-residential uses. The demand for normal replacements can be put, on the basis of pre-war experience, at about 1,100,000 over the twelve years, and to this I added another 700,000 over the same period to cover all the remaining factors. I thus arrive at a final total of about 7,500,000 houses as likely to be needed by 1958.

This may seem a formidable figure, as the total number existing in 1939 was about twelve millions. But it must be borne in mind that it is in effect a twenty years' estimate, in view of the fact that hardly any new houses have been built since the war began. It involves over the twelve years an annual building rate of more than 600,000 houses a year, or rather, since such totals clearly cannot be reached for several years, a rate of at least 750,000 as the target to be arrived at by the third or fourth year at latest.

Of these seven and a half million houses, at least four million will be needed to replace dwellings which are already obsolete by any modern standard, and most of the remainder will go to replace houses which will have become obsolete before the twelve years are up. There are (or were before bombing) about eight million houses built before 1914; and the vast majority even of the less old of these are sub-standard by modern notions of what a decent house should be.

How Much will the Programme Cost?

Seven million houses, *at pre-war prices*, but allowing for post-war standards of accommodation and amenity, would probably have cost about £3,750 millions to build, apart from land and other additional costs. This works out at over £300 millions a year, spread over the twelve years. It compares with about £150 millions a year that were being spent on house-building before the war. It would have used up more than half the total pre-war savings; but a good deal less than half under conditions of full employment. Of course, under post-war conditions prices are likely to be substantially higher, and the house-building programme is likely to cost a good deal more, unless there are large economies in construction. But so will the national income and the national savings be higher at any higher level of prices: so that the proportions need not alter. It looks as if an adequate housing programme over the first post-war decade would need to absorb at least three-eighths of the *minimum* amount of saving needed to sustain full employment.

This does not look so formidable after all. Indeed, the real difficulty is not that of finance or lock-up of capital in house-building, but rather that of man-power. The building industry had its man-power very heavily depleted under war conditions, and in particular lost a high proportion of its skilled workers and almost entirely failed to train new ones. Apprenticeships were interrupted: new apprentices were few, and were very seldom able to get a proper training. The building industry in 1939 had a working force of about 1,050,000 persons, apart from another 360,000 in various branches of civil engineering. Of the 1,050,000, well over half were skilled workers, who are the key factor. If the rate of house-building is to be roughly doubled, as compared with the pre-war rate, the industry will need about another 300,000 men for this purpose alone, besides the addition needed for increases in non-residential building. In all, it will require at least 1,500,000 workers, apart from those in civil engineering, and, in the absence of large changes in technique, well over 750,000 of these will need to be skilled workers. But there will certainly not be as many as 400,000 skilled men available when demobilisation is complete, including those who return to it from the Forces as well as those who have been at work in other industries. Indeed, 350,000 is a much more plausible figure, after allowance for civilian deaths, retirements, war casualties, and withdrawals to other occupations. This leaves a shortage of from 350,000 to 400,000 skilled men to be made good by training new entrants, who must of course be drawn mainly from demobilised service units or munition factories, as there are not nearly enough boys to go round, even if the industry would prefer to build up its numbers by taking on boy apprentices. There is a further reason why this is impracticable: a boy apprentice normally takes from five to seven years to become a craftsman; but houses are needed quickly, and not only in five or seven years' time.

There is still a factor to be taken account of. For the first year or so after the war, a large proportion of the available workers have needed to be at work repairing houses and not building them. This work had to be done, or the houses would have decayed and become irreparable, and the immediate need for new houses would have been still further increased.

Can we, in face of the other demands on man-power and of the shortage of skilled men, hope to expand the effective working force of the building industry on the scale required for meeting these demands? Clearly, such expansion will take years; but can it be achieved at all? It cannot, without a mass effort at training

comparable with that which was made during the war in the training of munition workers, or, in a different field, in the Royal Air Force. But why should we not make such an effort? That a considerable effort would be needed was recognised by the Coalition Government in its White Paper on *Training for the Building Industry*, which contemplated the training of up to 300,000 men for skilled work. This, in my view, was not nearly enough; but it went a substantial way. But, even if the training is practicable, can the men be spared? As we have seen in an earlier chapter, the total male labour force is rather smaller now than it was in 1939; and to a much greater degree, its average age is higher. We clearly cannot spare the men, unless the building industry accepts and trains a quite large proportion of men drawn from the higher age-groups.

Training for the Building Industry

Even so, the task is so formidable that we must clearly do everything we can to ease the strain. The case for a large measure of pre-fabrication and for the utmost possible standardisation of components is not only that these things can be so developed as to reduce the real cost of houses, but also that they will reduce the demand for skilled labour on the site, where the most acute shortage of skilled craftsmen is bound to arise. If we can get an appreciable part of the work done in engineering factories, using a high proportion of the workers who were trained for munition-making during the war, the difficulty can be appreciably reduced. But it will remain necessary to apply every possible means of economising the use of labour of every sort, not only in order to get the houses at lower prices, but also because we shall be seriously short of labour, and especially of male labour, on which the building industry has hitherto exclusively relied. Women cannot easily be employed in any large numbers in actual construction on the site: they can be quite largely used in factories making standard fittings and pre-fabricated components.

The Need for a Revolution in Building Methods

In effect, the building industry is due for a technical revolution. It is the only large industry, except agriculture, which is still carried on with very little aid from power-driven machines. It is an extraordinarily traditional and conservative industry, which has changed less than any other in the course of the past century. It must change rapidly now; for we cannot afford to let it go on

wasting labour as it has done hitherto. Above all, we cannot afford to allow it to maintain the extraordinarily high unemployment rates which have characterised it even in years of prosperity, or the vast mass of intermittent and casual labour which has hitherto been accepted almost as a matter of course. The building industry, with its 100,000 separate firms, mostly very small, needs taking drastically in hand and overhauling from top to bottom. That, however, is a question which I do not propose to pursue now. Something has been said about it in earlier chapters of this book; and I have discussed it fully in my book, *Building and Planning*, published in 1945.

What Sort of Houses shall We Build?

We shall need our seven and a half million new houses, over the next dozen years. But *where* shall we need them, and what sort of houses, how placed and spaced to fit into a pattern of living, do we want them to be? As for the sort of houses, we have seen already that this is mainly a matter of how much we are prepared to spend on subsidies designed to bring the housing of the whole population up to a higher minimum standard. We can set our minimum standard where we will, in terms of accommodation, quality of building, fittings and equipment, density per acre and garden space, provision of communal facilities on housing estates, and so on; and the higher we put it in each of these respects, the more man-power each house will use up, the more it will tend to cost, and the greater will be the cost of the total programme, if we decide to make need, and not ability to pay, the deciding factor in our building plans. Of late years, as we have seen, there has been a tendency to raise minimum standards fast; and we are now confronting the implications of the improved standards in terms of both money cost and real cost. All that need be said further on this point is that, whatever we decide about accommodation, density, and quality of building, there is an evident demand for better fitted houses, designed to save labour and to give the tenant a more complete and highly finished article than used to be thought necessary in most housing schemes.

Flats versus *Cottages*

At this point, however, there confronts us the bitter controversy between the upholders of flats and of cottages. There is one school of housing propagandists in whose eyes any proposal to build a block of flats savours of deadly sin, and for whom nothing will do but cottages, complete with gardens, erected at a low density per

acre. Against this school is ranged another which, without decrying cottages, considers that flats offer many advantages for rehousing within restricted city areas, and should be built in large numbers for those who need to live near their work, for young married couples, and for persons living alone or without young children. This second school does not as a rule deny that we need to build more cottages than flats; but it points out that exclusive, or nearly exclusive, use of cottages will reduce greatly the numbers who can be adequately housed in existing built-up areas, and will tend to accentuate urban sprawl. Flats, say the upholders of this view, can if properly designed both get more people into congested areas and give more usable open space, especially if they are erected in tall, well-designed blocks, well spaced out and grouped to secure adequate light and air. The 'cottage' school retorts that such flats will cost a good deal more than houses—for in Great Britain, though not in general on the continent of Europe, flats have been found more expensive than cottages to build—and that in practice flats will yield less amenity and less of the conditions favourable to health. Most of the advocates of cottages agree that *some* flats will have to be built, both for reasons of nearness to work and because the overspill involved in building cottages for all comers would be too great to find social acceptance. It is really, on both sides, a question of how many flats we need build and how many cottages; but the battle between the rival schools of thought is often extremely acrimonious.

It is beyond doubt that for the most part the British people prefer small houses with gardens to flats. I am not now speaking of the well-to-do, who can afford luxury service flats, but of ordinary people. How far this preference is due to the poor amenities which have been offered in the past by most blocks of workers' 'tenements,' and how far to a real preference for houses with gardens, I do not profess to know. Evidently most flats have hitherto been sadly lacking in attraction; but so have most separate houses, except those built in very recent times. Almost certainly the preference is real, among families with children and also among garden-lovers. But there remain many households in which there are no children, or in which the children are already grown up, as well as many who must be housed in flats in order to be near work in the centre of big towns. One special case is that of old people, who may in many cases be best housed in small blocks or groups of cottage-flats, not in the centre of towns, but with a space of garden ground and the fullest possible provision of labour-saving services. The cottage *versus* flat controversy is not one which can be rationally settled on principle either way: it is

a matter of balancing up the needs of different areas so as to provide many different kinds of houses for people with varying tastes and requirements. But, to the extent to which it is reasonable to take sides, the cottage school, and not the flat fanciers, must be pronounced right.

Some Passages from the History of Housing

Where the new houses are to be put is a question that raises much more complicated issues, for it includes not only the entire problem of town and country planning but also the closely related question of the location of industry. Ever since the medieval regulation, continued under Queen Elizabeth's legislation, which in general sought to confine industrial development to the incorporated towns, broke down, industrialists have been left free to plant factories pretty much where they have liked, subject only to not very effective safeguards under the common law rule that they must not cause undue 'nuisance' to their neighbours. Broadly speaking, up to the advent of machinery driven by steam-power, industry, especially where it depended on water, tended to diffuse itself over country areas and especially along rivers; but with the coming of the steam-engine it became more and more concentrated in towns in the neighbourhood of the coalfields. Thus, in the nineteenth century there was a great migration of population towards the factories, metal works, shipyards and mines of the North of England, South Wales and Clydeside; and in these regions there grew up a host of industrial towns, big and little, built with no regard for planning or amenity, mixed up with the factory buildings, and usually constructed in the cheapest possible way. These aggregations of houses were crowded together to save land and with little or no sanitation or regard for any of the conditions of decent and healthy living. Gradually, as local government developed, chiefly after the middle of the nineteenth century, something was done to combat insanitary conditions by improving water supply, drainage, and arrangements for the disposal of refuse, by laying down by-laws regulating new building, and occasionally by pulling down a particularly offensive dwelling or even more rarely clearing a really intolerable slum. But very little was achieved either in demolishing insanitary areas or in ensuring good building—much less good design or planning—of new houses. General powers to demolish insanitary dwellings and to clear slum areas were conceded under a series of Housing Acts beginning with the Torrens Act of 1868 and the Cross Act of 1875; but the first Town Planning Act was not passed until 1909, and even then gave only

inadequate and merely permissive powers. It was left to local authorit es, with no standards to work upon, to do as much or as little as they pleased under the successive Acts; and most of them did very little indeed. Public house-building, except on a small scale for the replacement of demolished slums, hardly began until after 1918, and even thereafter was hampered by repeated reversals of national policy and by acute controversy between the advocates and opponents of 'private enterprise housing.'

Our towns are still, especially in their older centres, full of the dwellings erected for the poor during the period of planless and unregulated urban growth that spanned the entire nineteenth century. In 1939 there were about four million houses—nearly one-third of the total number in the country—that were more than eighty years old, and most of these were not 'ancient monuments' worthy of preservation, but obsolete and decaying products of the period when wages were very low and bad houses were a highly profitable speculation. Early in the present century, however, the provision of cheap working-class houses ceased to pay nearly as well as it had paid until then. This was partly because somewhat better standards were being enforced by the local authorities in the case of new houses; but it was much more because there was a sharp rise in interest rates, due largely to the high profits that could be derived from capital invested abroad. These high rates put up the rents that had to be charged to levels which ordinary working-people could not afford to pay; and new cottage building fell off sharply. This had happened before Lloyd George's famous Budget of 1909, which imposed taxes on unearned increments of land values; but the outcry against the Lloyd George land taxes undoubtedly resulted in a further decrease in house-building, so that well before 1914 overcrowding was getting worse and making for more rapid deterioration of the old houses in which poor people had to live.

Housing Between the Wars

The first World War, by bringing new building almost to a stand, made matters very much worse; and by 1919 there was an appalling shortage which made it impracticable to pull down any large number of old houses, even where they were manifestly no longer really fit for habitation. There was a feverish housing campaign in 1919 and 1920, in an attempt to make some show of redeeming Lloyd George's promise of 'Homes for Heroes.' But this campaign was utterly defeated by the 'housing ramp.' Everyone concerned with the building industry—not least the suppliers of housing requisites and materials—put up prices in view of the

high demand, until houses were costing fantastic sums out of all relation to the rents which tenants could be expected to pay. Then, in 1921, came the post-war slump, followed by the 'Geddes' economy campaign, which swept away the entire public programme of house-building. A new scheme began with Neville Chamberlain's Act of 1923, giving a subsidy to anybody who would get a house built; and the first Labour Government of 1924 made a statesmanlike attempt to tackle the problem by controlling the prices of materials and concluding a treaty with the workers and employers in the industry for an expansion of the labour force. The Wheatley Act of 1924 provided special subsidies for houses built by local authorities for letting at controlled rents; but the companion Bill, regulating the prices of materials, was held up by strong opposition, and was not through Parliament when the Government fell at the end of the year. It was then, of course, dropped by the Conservatives.

The combined effect of the Wheatley and Chamberlain Acts was, however, to cause a revival of house-building; but soon conditions worsened again with the coming of the great depression which set in after 1929. For a time building fell to a low ebb; but one effect of the depression was a sharp fall in rates of interest, and under this stimulus house-building revived sharply in the 'thirties. The great majority of the houses were built in this period not by local authorities but by private enterprise, financed mainly by Building Societies and Insurance Companies; and a high proportion of the new houses were for sale and not for letting and were too expensive for the great majority of wage-earning households. They were built for the better-off—above all, for the rapidly growing army of 'black-coats' in the commercial centres; and they led to a sprawl of new housing round the edges of the existing built-up areas and to ribbon development along the main roads leading out of the towns.

The Beginnings of Town Planning

In the meantime, local authorities had been acquiring additional town planning powers. The very small beginning made by the Act of 1909 had been rendered almost abortive by the war of 1914–18; but further Town Planning Acts were passed in 1919, 1923 and 1925; and planning was at length extended in theory over the whole country by the Town and Country Planning Act of 1932, while a half-hearted attempt to check ribbon development was made in the Prevention of Ribbon Development Act of 1935. Under these Acts, town planning committees were set to work in town and country districts, and provision was made for

the establishment, on a voluntary basis, of joint town planning committees to draw up plans covering wider areas that needed considering together. But it was still mostly a half-hearted affair. Most of the joint committees were merely advisory bodies, with no powers of their own; and there was no compulsion on any local authority to take part in them or to co-operate in any way with its neighbours. Each local authority had to draw up a plan; but the procedure was very slow and cumbersome, and positive action was kept severely in check by the high costs of compensation facing any authority which attempted to enforce any plan that interfered at all with the landlord's right to develop his property as he pleased.

In the meantime, public house-building was practically confined in the 'thirties to slum-clearance schemes, with which some progress was made, and, for a year or two before the war, to building houses for the relief of overcrowding in badly congested areas. General house-building was left to 'private enterprise'; and town planning made but slow headway against the very great obstacles in its path.

The Location of Industry and Population

The problem, after 1918, was wholly different from that of the nineteenth century. Industry and population were no longer piling up in the North and in South Wales. Many of the older industrial areas were heavily depressed, and not a few actually declining in population. The rapid growth was occurring in the South and South Midlands, and above all in the neighbourhood of London. Most factories, in view of the development of electric power, were no longer tied to the coalfields; and the growing light, consumers' industries were attracted rather to the neighbourhood of large consuming markets or of ports handy for the receipt of materials and for export trade. As we have seen, less labour was being employed in mining and manufacture, and more on services, which tended to be concentrated in the big towns. The 'southward trend' of industry and the sprawl of Greater London became outstanding social as well as economic problems. The Barlow Royal Commission, to study the location of industry and consider whether it should be brought under some measure of public control, was set up before war broke out in 1939, though it did not report until 1940.

The planning of town and country and the planning of the location of industry are obviously closely related questions, though the one approach is mainly from the social angle of health

and amenity and the other from the economic angle of the costs of production and distribution. Where the factories are, there, or nearby, must the people who are to work in them, and their families, live; and round the centres thus determined must gather a host of services. Retired people will tend to live near where their relatives and friends are working. The pattern of the location of industry is bound, in the main, to coincide with the pattern of town development. Hitherto, however, we have been trying to plan our towns without any further control over industrial location than the power to prevent new factories likely to cause 'nuisance' from being built in the middle of residential areas, or at most in new areas than the power to 'zone'—that is, to set aside some parts of a development area for factories, some parts for housing, some for shops, and so on. This is all very well in its way; but how can a local authority make an effective town plan when it does not know how much, or what kind of, industry is going to develop within its borders, or accordingly how large a population, or how composed, it is likely to have? Moreover, how can it make a proper plan when, more than likely, it controls only a part of the town's real extent, actual or potential, and its plans may be wrecked by the next-door authority giving permission just beyond its border for the very kind of development it has been trying to prevent, or making plans that run, in some other respect, quite counter to its own?

Should Location be Controlled?

When it was first suggested that there ought to be some general power in the hands of the State to control the location of industry, strong opposition was expressed. The Board of Trade, in its evidence before the Barlow Commission, put forward the view that employers know best where to put their factories so as to make them pay, and that any attempt to interfere with them would be likely to dry up the springs of investment and thus cause even worse unemployment than existed already. It was pointed out in reply that business men, in deciding where to put their factories, usually take no account of the *social* costs of their decisions. They might, by putting a factory in one place rather than another, aggravate the distress and unemployment in an area which had a surplus of labour and cause serious problems of congestion in an already crowded area into which additional labour would have to move in order to meet their demands, and in which more houses and services would have to be provided to cater for the enlarged population. It was pointed out that these

social costs, positive and negative, did not have as a rule to be met by the firm which built the new factory, and accordingly did not enter into its calculations of prospective profits. They are, however, real costs, and from the standpoint of the community may render highly uneconomic a development which is remunerative to the particular firm concerned. It was also said, with much truth, that the location of new factories is often settled, not by economic considerations of relative costs, but rather by the employer's preference for living in a pleasant neighbourhood or near a big city with plenty of amenities, or even merely by his going on where he is, and expanding his factory wherever he happens to be without any real consideration of the expediency of alternative sites or areas.

The Barlow evidence as a whole made it clear that one very important factor in the choice of factory sites, at any rate by big firms, has been the availability of large supplies of suitable labour. This tends to make more factories of a particular type go where others have gone before them, because they have known there would be suitable labour near at hand. Of course, there might in fact be no local *surplus* of such labour, and new workers might have to be attracted into the district to meet the increased demand. But this factor has often been left entirely out of account. The desire to go where suitable labour can be found, so far from attracting industry to the depressed areas, has worked in practice the other way, and has intensified the piling up of factories and population in the South and South Midland regions. Even apart from this factor, the depressed areas have had a bad name, and many firms have refused to go near them.

The Barlow Commission agreed both that action was needed and in broad terms what it should be. But its members fell out about the precise forms which state intervention ought to take. They agreed in proposing a new Central Authority, distinct from and extending beyond the scope of any existing government department, and on entrusting this authority with certain definite tasks. Among these were the redevelopment of congested urban areas, the decentralisation or dispersal of industries and population from such areas, the encouragement of a reasonable balance of industrial development throughout the various regions of Great Britain, coupled with appropriate diversification of industry in each region, and in particular the checking of the drift of industrial population to Greater London. They recommended unanimously that attention should be given to the development of garden cities or suburban satellite towns, industrial trading estates, and existing small towns suitable for industrial expansion.

They held that municipalities should be given further powers to deal with these problems, including powers to act jointly on a regional instead of a purely local basis, and that state financial aid should be given in respect of approved schemes. They agreed in wishing the Central Authority to have power to inspect all local and regional planning schemes, to suggest their modification or correlation in the national interest, and to study the location of industry throughout the country. Finally, they agreed in urging that the war had given further immediacy to the problem and that preparations for post-war planning on the lines of their report ought to be set on foot at once.

The Machinery of Control

So far the members of the Commission agreed, but they fell out over questions of machinery. The majority wanted to leave the existing machinery of town and country planning broadly unchanged under the Ministry of Health, but to set up side by side with it a new national body, a National Industrial Board, to deal specifically with the location of industry. This Board, working mainly but not exclusively with the Board of Trade, was to survey and advise upon industrial developments over the whole country, but was to be given executive power to restrict industrial development only in respect of Greater London, where it was to make a special survey and then report to the Board of Trade and to Parliament what further powers it regarded as necessary in other parts of the country. Three members of the Majority, while endorsing these proposals, wished to strengthen them and in particular favoured a gradual extension of the negative power to restrict industrial development over other areas besides London. The Minority, as against all this, held that only a new Ministry, armed with wide executive powers, could deal adequately with the problem. They proposed that the new Ministry should have all the powers assigned by the Majority to the Industrial Board, but should in addition take over the administration of town and country planning, and should be instructed to prepare "a general scheme of development, subject to constant revision." The Minority suggested that the whole country should be divided into areas of three types, as follows: (*a*) areas into which industry would have free entry, subject to local planning requirements; (*b*) areas in which further industrial development would be prohibited, except for certain special exemptions; and (*c*) areas in which a special case would have to be made out for each request to undertake new industrial developments. The Minority also

went further than the Majority in their proposals for financial assistance from the State in the development of garden cities and suburbs, small towns, new satellite towns, and industrial trading estates.

The Uthwatt and Scott Reports and the Government's Pledges

Here was the basis for a policy of national as well as local planning of industrial development. In 1941, after the Barlow Commission had reported, two Committees were appointed to deal with closely related questions. The Uthwatt Committee on Compensation and Betterment was set the task of working out the legal changes needed to provide for the acquisition of land for public purposes at fair prices and to secure that land development would be brought into accord with the public interest on terms fair both to the owners of land and to the public. The Scott Committee, set up later in the year, had to consider "the conditions which should govern building and other constructional development in country areas, consistently with the maintenance of agriculture, and in particular the factors affecting the location of industry, having regard to . . . the well-being of rural communities and the preservation of rural amenities." Both these bodies in due course reported on the explicit assumption that some national machinery for economic planning and the control of industrial location would be set up by the Government before the end of the war.

The Coalition Government indeed, through Lord Reith, had pledged itself early in 1941 "that the principle of planning will be accepted as national policy, and that some central planning authority will be required"; and this pledge was explicitly reaffirmed a year later, when the Ministry of Works was made into a Ministry of Works and Planning, to which were transferred the town and country planning (but not the housing) functions of the Ministry of Health. Later, the Planning Section of this composite Ministry was set up on its own as the Ministry of Town and Country Planning, but was given no economic functions and no control over the location of industry, which was left, as far as it was anywhere, in the hands of the Board of Trade. Before this, the Coalition Government had promised that areas not already covered by planning schemes would be deemed to be so covered, and that means would be provided whereby war-damaged and other 'reconstruction' areas could be replanned as wholes, and that local authorities should be given strong powers to acquire land for this purpose.

Little, however, was done by the Coalition Government either to implement most of these promises or to give effect to the major proposals of the Barlow Commission or of the Uthwatt and Scott Committees. Indeed, the issue of the main Uthwatt Report in November, 1942, was followed by an acrimonious controversy which has been in progress ever since. The Committee, consisting of legal experts specially cognisant of land law and hardly to be suspected of a 'left bias,' made proposals which met with fierce resistance in Conservative quarters. Land nationalisation, indeed, they ruled out as "politically impracticable"; but they reached the conclusion that there could be no satisfactory solution to the problem of land use and urban development unless the State acquired the entire "development rights" of land in unbuilt areas, and actually bought such land as was from time to time required for development. At the same time, the Uthwatt Committee recommended powers for much easier public acquisition of land in areas already developed, wherever it was needed in connection with planning or replanning schemes.

The proposal that the State should acquire the 'development rights' in all undeveloped land meant in effect that the owners of it would be left undisturbed unless or until it was actually wanted for development, but would have no further interest in its development value. They were to be compensated for the loss of this potential value by a method, already used in connection with the public acquisition of coal, of 'global valuation.' An estimate was to be made of the 'development value' of the entire land of Great Britain, and this sum was to be paid by the State into a fund which would then be shared out among the landowners, in proportion to the amounts of their recognised claims. This method was proposed, in preference to payment of compensation based on a separate valuation of each plot of land, on the ground that there was a large difference between the amount of land that *might* become ripe for development and the total amount that could be actually developed. There might be, round a growing town, a hundred possible sites for building for every one that would actually be needed; and individual valuation of each plot would tend to attach to all of them a 'floating value' greatly in excess of their total worth.

This proposal caused a howl of execration from landowners, who had been accustomed to getting compensation based on this 'floating value' when land was taken for public purposes. The opposition was so strong among Conservatives that there was long delay before the Coalition Government made any announcement

of its plans, and when it did, in 1944, the Uthwatt proposals were rejected, and no more was proposed than an easier process for public land acquisition more or less under the old conditions. The position was complicated because the Government had accepted at an earlier stage a previous proposal of the Uthwatt Committee to place a 'price-ceiling' on land publicly acquired for reconstruction schemes, at the pre-war value of the land. This also aroused strong opposition in view of rising land prices and the profits of land-speculation under war conditions; and the Coalition, despite its promise, substantially modified the Uthwatt recommendations in its own proposals of 1944. Finally, the Uthwatt Committee proposed a special tax on increments in land values in developed areas; and this too was hotly opposed.

In face of these contests, practically nothing had been decided, when the Coalition came to an end, about the issues dealt with by the Uthwatt Committee. The Act passed under the Coalition Government in 1944 dealt in the main only with certain special problems affecting the reconstruction of blitzed areas; and these failed to satisfy the local authorities, which considered that they were being offered neither adequate financial help nor powers wide enough to enable them to undertake effective replanning schemes. This latter issue was tied up with the question of the reform of local government areas, with which the Government was afraid to deal, in view of the sharply divergent views of the existing local authorities. As for the financial issue, it too was left in abeyance, and local authorities were asked to plan, in effect, without knowing either what their financial position was likely to be or over what areas their planning powers were to extend. Almost all that happened was that outline planning schemes were brought into existence or at least into some sort of preparation for every part of the country, that reluctant local bodies were compelled to join town and country planning authorities or committees covering the areas of a number of neighbouring authorities, and that the Ministry of Town and Country Planning set up regional offices in the principal centres for consultation with the local planning bodies in working out concerted schemes.

The Distribution of Industry Act

At least, no more than this had happened until, in February, 1945, the Coalition Government at length brought before Parliament a Bill dealing with the location of industry and presumably intended to meet some of the demands of the Barlow Commission.

This new Bill proved, however, to be in the main a measure not for control over the location of industry or for any sort of national industrial planning, but for the scheduling of certain areas—mainly those which were especially depressed before 1939—as 'development areas' and for the taking of steps to encourage post-war industrial enterprise in these areas. Once more, town and country planning and location of industry were treated as two entirely separate questions; and just as the Ministry of Town and Country Planning had been given no powers in the economic field, the control of industrial location, to the extent that it was contemplated at all, was put under the Board of Trade without any relation to town and country planning. Moreover, whereas the Barlow Report had been mainly concerned with checking development in Greater London, the Bill made no specific reference at all to the London problem.

Nevertheless, the Bill, which became an Act in June, 1945, just before the Labour Party's election victory, had good features, as far as it dealt with the depressed areas and not with the wider issues of general economic planning. The 'development areas' proposed in it were a great improvement on the 'special areas' for which legislative provision had been made before 1939. Practically the whole of industrial South Wales and Monmouthshire and of the industrial North-east Coast were included; and the Scottish area was also much more widely defined. Cardiff and Swansea, Newcastle-on-Tyne, all Clydeside and even Dundee were to be included within the areas eligible for special help; and the powers of the Government to act within these areas were to be much larger. The Board of Trade was to be able to acquire land, establish industrial estates, build factories and make grants for the improvement of basic services. The Treasury was to be empowered to make grants or loans to ordinary profit-making concerns in order to encourage them to set up factories and expand operations in the "development areas." This last provision (immediately expedient though it may be) will obviously need careful watching.

In addition, there was to be power to add new development areas, as well as to remove areas from the list if they seemed no longer to need special help. Any proposal to vary the list was to require an affirmative resolution in both Houses of Parliament—a proceeding which seemed to imply that the power was not meant to be often used. The question that here arose was what was meant to happen when the need for special help existed, not over a wide region such as South Wales or the Scottish industrial belt, but in a single town or district falling geographically within

a region which as a whole was relatively prosperous, and therefore ineligible under the Act for being scheduled as a development area. Such cases are very likely to arise, especially if places that have been developed during the war as dispersal centres for new industry are left derelict when production settles down again; but there seems to be no possibility of doing anything at all for them under this Act.

Proposals for the Control of Location

There are, however, some provisions in the Act which travel beyond the domain of the Special Areas. Under its provisions, in future, in all areas, plans for the erection of new factories with a floor space of more than 3,000 feet are to be notified to the Board of Trade, which will, however, have power to exempt any particular class of undertaking from the need to notify. The value of this provision is largely nullified by the fact that it applies only to new undertakings, and apparently not to extensions of existing undertakings; so that firms will be free to extend existing works, including works bought up for the purpose, without even notifying their intention. Nor is the Board of Trade given any power to prevent anybody from putting a new factory wherever he pleases, save in exceptional cases. Notification in itself involves no power of control; and control is to exist only in areas which are specially scheduled for this purpose as areas where further industrial development is undesirable. These can be so scheduled only by affirmative resolutions in both Houses of Parliament.

No doubt, given an energetic Government determined to make use of its powers and assured of support in both Houses of Parliament, this procedure may be effective in checking the development of industry in the neighbourhood of London or in other parts of the country where such development is regarded as socially or economically undesirable. But, in practice, it seems unlikely to have this effect, for whole regions seem unlikely to agree that they ought to be closed to industrial expansion, and Parliament seems likely to be most unwilling to impose any such limitations upon them. The power is much more likely to be used for the purpose of preserving beauty spots—a desirable, but very limited, objective. The Board of Trade is given power to acquire derelict land and to develop it either for productive use or for the improvement of local amenity. Alternatively, the Board of Trade is empowered to assist local authorities in undertaking this type of reclamation; and in practice this seems much the likelier course to be followed. There is, however, no hint that this power is in any

way related to other aspects of planning—for example, to the post-war work of the Forestry Commission.

In effect, the Act, if it had been passed before the outbreak of war, would have been welcomed as a sensible strengthening of the Special Areas Acts, but would even then have been open to criticism for the inadequacy of its proposals to control location, and especially for its failure to make any attempt at dealing with the already pressing problems of Greater London. Enacted in 1945, it appeared quite grotesquely inadequate to anyone who believed at all in the desirability of a "planned economy" or the necessity of taking strong measures to bring about a sustained condition of full employment. It could be answered that, in the period immediately after the war, control over the location of industry could be exercised more effectively by the granting or withholding of building permits than by any direct system of licensing industrial development. But, though it is true that, for a year or two, control can be applied in this way, it is not easy to see any strong control of this kind being worked for long in conjunction with a weak system of direct licensing limited to a few specially scheduled areas.

The Act indeed seemed to confirm the conclusion which the public had already reached when the Town and Country Planning Bill was under debate in 1944. As far as the Coalition Government was concerned, there was to be no general post-war planning and no attempt to give practical substance to the mild protestations of the economists who were allowed to put some of their views into the White Paper on *Employment Policy*. The Coalition Government meant the country to revert after the war to a system of private enterprise, modified only by adding a few more hurdles for the business man to leap over, and a few glasses of stimulating subsidy to give him the spirit to attempt the leap.

Planning under the Labour Government

The Labour Government, during its first year of office, left the Distribution of Industry Act unamended, and did nothing to settle the vexed questions of "compensation and betterment" opened up by the Uthwatt Report. There was simply no room for these matters in the long queue of Bills awaiting the attention of Parliament; and it was probably considered that, whatever the shortcomings of the Distribution of Industry Act might be, no great harm would be done if it were allowed to stand for the time being, with other means in the Government's hands of influencing the location of industry—for example, by giving or refusing

permits to build, or by facilitating or hindering the provision of capital or the supply of materials or of man-power. The failure to implement the Uthwatt proposals, or to devise any alternative to them, was more serious; for it left the local authorities still in a fog about the probable cost of any development plans they might make, wherever these involved decentralisation into unbuilt areas. It was, however, presumably felt that this issue needed to be tackled in conjunction with the entire question of local government boundary extensions, and that the local authorities were in any event in no position to look far ahead until their general status and financial relations with the Central Government had been further cleared up. Besides, the Labour Government, like its predecessor, was at first undecided what line to take about the Uthwatt Report. The Uthwatt Committee had ruled out land nationalisation as "politically impracticable." So it was under the Coalition Government; but was it so any longer after the Labour electoral victory? If not, would it not be preferable to take the undeveloped land over entirely into public ownership, instead of acquiring merely its "development value"? Some Labour supporters thought it would, whereas others were reluctant to add yet another measure of nationalisation to those already promised. Consequently, the matter was allowed to stand over during the Labour Government's first year of office; and the Bill dealing with the whole question of land compensation and betterment was published only in January, 1947. The Bill then introduced was based largely on the Uthwatt proposals. It provided for the public acquisition of the 'development rights' in all land, while leaving untouched in private hands the value attached to land in its existing uses. No *right* to compensation was recognised in respect of the development value; but the Bill provided a sum of £300 millions to be shared out among landowners to meet cases of 'hardship.' This meant in effect that the claim to compensation was allowed wherever an owner of land could show that he had actually suffered any serious loss. The Bill also provided for the levying of 'betterment' charges on owners of land where values were increased by change of use, but did not follow the Uthwatt Committee's proposal that all land on which development was actually authorised should be acquired by the Government. There were in the Bill many other provisions, including a most important change of which the effect was to take away the town and country planning powers of the smaller local authorities, and to concentrate these powers in the hands of the larger authorities—the Councils of Counties and of County Boroughs. Provision was

also made for joint bodies, linking neighbouring authorities together, in such a way as to facilitate the concerted planning of big towns and of the suburbs and unbuilt areas outside their municipal limits. The Town and Country Planning Bill of 1947 was a very far-reaching measure, and made up by its comprehensiveness for the long delay in introducing it. Many Labour supporters regretted that the Government had not taken the much less complicated course of nationalising the land outright; but to do this would have meant going outside the programme on which the General Election of 1945 was fought.

In other respects, however, the Labour Government pressed on with fresh legislation, besides taking action under the Distribution of Industry Act. Its most important measure up to the end of 1946 was its New Towns Act, based on a report made by a committee presided over by Lord Reith. This Act empowered the Minister of Town and Country Planning to designate areas as the sites for new towns and to set up special Corporations under public ownership to develop these towns in conjunction with the local authorities holding jurisdiction over their areas. The Corporations are not to be local authorities, or to take over the functions of the existing local authorities in the places concerned. They are, however, empowered to build houses, either as agents for the local authorities or on their own account, and for this purpose they are recognised as 'housing associations' entitled to receive grants from the Exchequer. Public utility services in the new towns are, as a rule, intended to be supplied by the existing local authorities, and not by the Corporations; but there is a special clause under which the Corporations can be authorised to undertake sewerage services. The capital of the Corporations is to come from the national Exchequer. It was estimated, when the Bill was introduced, that the capital cost to the public funds of a new town built for a population of 50,000 would be about £19 millions, spread over ten years, and that of this sum the Corporation would spend about £15½ millions and the existing local authorities about £3½ millions. These figures excluded gas and electricity and also hospital services, and assumed that the cost of industrial buildings and of middle-class houses would not fall on public funds. The new towns were proposed to be planned for populations ranging from 20,000 to 50,000: the Reith Committee recommended rapid development up to 15,000 or 20,000, with a maximum addition in the first instance of 10,000 where the new town was being added on to an existing urban settlement.

The Government, in shaping this Act, rejected a proposal of the Reith Committee that would have allowed some new towns to be

developed by Corporations acting under existing local authorities rather than under the State. It was presumably felt that the requisite finance could more easily be provided nationally, and also that it would be easier to give the new areas the full benefit of government credit and help and to deal with the inevitable local objections if they were built directly under national auspices.

CHAPTER IX

THE PATTERN OF LIVING IN POST-WAR BRITAIN

IN SUCCESSIVE CHAPTERS of this Part I have surveyed certain aspects of the problem which awaits Great Britain in the difficult years that lie ahead—whatever Government may hold power. A point has now been reached at which it is pertinent to raise the issue of the kind of society in which we propose to live. It was manifestly the absence of any agreement, or indeed of any assured preponderance of opinion, on this general issue that led to the Coalition Government's failure to put forward any clear plans of reconstruction, even in relation to the most obviously urgent matters. We held up, while the Coalition lasted, decision not only about the future ownership of vital industries, such as coal-mining, but also about housing, town and country planning, land use, food policy, employment policy, and a host of other things, because the right way of tackling them depends on the social structure into which they are intended to fit. Over education we may seem to have been held up less, despite its evidently close relation to the problems of class-structure and democracy; but the truth is that the struggle in this field has only been transferred from the legislative to the administrative terrain. What the Education Act of 1944 will mean in terms of class relationships will depend on how it is administered; and that issue is by no means settled yet.

Different Conceptions of Democracy

(1) *The Churchillian.* In Great Britain to-day, all parties—though not of course all persons—claim to be 'democratic.' But there are the widest differences in the meanings they set on democracy. Mr. Churchill, for example, when he uses the word, appears to mean by it anything, except any kind of Socialism, for which enough voters out of a wide electorate can be induced to vote to give its advocates a parliamentary majority. Socialism is ruled out as 'undemocratic,' on the ground of its alleged tendency to restrict the freedom of the ordinary man. Thus, democracy seems to mean for Mr. Churchill two things—parliamentary government and restricted government. It implies for him a

parliamentary system based on 'free' elections, but it also implies what is called 'private enterprise.' Democracy, in this Churchillian sense, is fully compatible with wide differences of income and social class, with monarchy and hereditary aristocracy in continued possession of wide political powers and social influence, and with the continuance of poverty and almost any sort of inferiority among large sections of the people. It is, in effect, something that I for my part should call, not democracy, but aristocracy tempered by the possibility of social and economic climbing and by the concession to the people of the right to vote.

(ii) *Radical Democracy.* As against this, to any real Socialist or Radical, democracy connotes a large measure of equality. It is inconsistent with large differences of wealth or income or of educational opportunity, or with the possession of privilege by any section of the population. This does not involve the notion that "all men are equal"—for obviously they are not, in most senses of the word. They may be equal before God, or before the law, but only in that somewhat intangible sense in which all finite things are equal in presence of the infinite. The notion of human equality is in fact historically founded largely on an abasement of all men before the notion of perfection, human or divine. As for the law, it claims only to judge all men equally, and makes no assumption about their equality when they are not before the court. Indeed, at the very basis of its common law doctrine lie conceptions of human inequality of status, rooted deeply in the past.

The equality which Socialists and Radicals alike postulate is not equality of attainments, actual or potential, or equality in littleness before God or law or totalitarian State, but equality of status in a practical, everyday sense. They reject privilege, as conferring on those who enjoy it advantages of wealth, power or prestige not based on personal merits or qualities; and they hold further that wealth, of such magnitude as to set a person plainly apart from most of his fellow citizens and to erect him into a higher class, necessarily carries with it the stigma of privilege. They do not necessarily hold, with Bernard Shaw, that all men ought to have equal incomes—though I think most of them agree that such a solution would be nicest and simplest if only the incomes were big enough to yield a reasonable standard of life, and if we were in a position to dispense altogether with financial incentives to do a fair day's work. What they do hold is that income differences should not be big enough to create class differences, and that no one, by virtue of having a bigger income, ought to be allowed to wield power over his fellow men beyond

what is due to his personal qualities and his capacity to serve the common interest.

Between these two contrasted views of 'democracy' there is obviously room for many intermediate varieties. A person may be, not a Socialist or Radical in the sense I have just given to these names, but a half-Socialist or half-Radical, as I think most of our professed Socialists and Radicals in Great Britain actually are. There are quarter-Socialists and three-quarter-Socialists, quarter-Radicals and three-quarter-Radicals—and as many further subdivisions as it may please you to make—in addition to the whole-hoggers. Even I, who like to regard myself as a whole-hogger, have too many unconquered prejudices and assumptions still in my mind to be a hundred-per-center in practice, whatever I may be in theory. This sliding scale of democratic quantities does not, however, exhaust the possibilities; for I have so far stated the position on an ultimately individualistic assumption which by no means everyone accepts. I have assumed that the question of democracy can be stated in terms of the relations between individuals in respect of incomes, education, privilege, power, and so on. This is an essentially Benthamite outlook, which makes the individual person the final repository of value, and regards society as existing—no, as '*oughting*' to exist—for the benefit of these members and not for anything else. Certainly not for the glory of the State, or the race, or the nation, or of any such abstraction, and no less certainly not for the working out of any predestined or inherent historical purpose or mission other than the welfare of individual men and women. For me, there is no antithesis between Socialism and Individualism. I am a Socialist because I am an Individualist; and I claim to be a better Individualist than many who use the name, because I am interested in every individual, and in creating a society which will give the greatest chances to the greatest number. I believe, not in the snatch and grab type of Individualism, which is the individualist variety of gangsterism as much as Nazism is the collectivist variety, but in an Individualism based on the common effort to achieve the equal chance.

(iii) *Communist Democracy.* That is why I cannot accept the Communist interpretation of democracy, though I greatly prefer it to Mr. Churchill's or Sir Ernest Benn's. I fall foul of Communist *theory* because it seems to me that, in Marx himself and in his successors, there is a taint, derived from Hegel, of anti-individualism, which finds expression in treating the class as more real in some sense than the individuals who make it up, and thus tends to replace the idea of the totalitarian State by the only less

dangerous notion of the totalitarian class. I can see the strength of this notion as an instrument of social revolution, but I am afraid of it as a basis for social reconstruction when the revolution has been won. Lenin, I am sure, saw this danger: it was the basis of his insistence on the temporary character of proletarian dictatorship and on the destiny of the State, after the revolution had consolidated itself, to "wither away." But this assumes that, when there is but one class left in society, or rather no classes at all, there will be no difference of views deep enough to make one group wish to coerce another. It assumes the solidarity of the class, and consequently the solidarity of the whole society when classes no longer exist, to a degree which I cannot believe in. Classes are abstractions, not realities from which the individuals are abstractions. If class issues cease to divide men, that does not imply that they will all think alike, or will all wish to follow the same policy. It implies only that the issues dividing them will be different. Accordingly, it does not imply that the State will "wither away," unless the State is defined exclusively in terms of class. It implies only that the State, 'after the revolution,' will not be able to rest on a class foundation.

Democracy and the 'Liberal' Idea

Now, of course, Marx did define the State entirely in terms of class; and accordingly it followed *from his definition* that the State could not continue to exist in a classless society. But was his definition correct? Even if it was a correct *description* of the States he studied, was it a correct definition of all *possible* States? I should say not. I should define the State simply as the central machinery of government in a society, and add that it will of course be a class instrument in any society dominated by class divisions. What other kinds of division, then, can there be, sufficiently dividing men to impose their character on the State? I should say, the division between those who live and worship the 'One' and those who prefer the 'many,' or in other words between lovers of order and lovers of freedom, or yet again between those who hold that all men *ought* to think alike, and those who believe that they can fruitfully disagree without having to go to civil war about it. In effect, even in a Socialist society, 'after the revolution,' there will be an issue to be settled between totalitarians and liberals.

I, like most British Socialists, am a 'liberal.' But I think we who take this view have to be on our guard against letting the liberalism of our ideals stultify our practice. We have learnt during the past few years that, on the international plane, 'liberalism'—please note that I am using the word in no party

sense—is a creed for which we may be required to wage total war, doing a host of things that we utterly dislike doing because we must either do them or suffer 'liberal' values to go down to defeat. The same thing is true, I think, subject to the necessary modifications, in our internal affairs. We cannot afford to let the anti-democratic forces win by refusing to counter them by means which are distasteful to us. In the name of freedom, it was necessary to suppress blackshirt armies and to intern Sir Oswald Mosley. And, in the name of freedom and democracy, it is necessary for us to get Socialism, even if we have to take quite a number of high-handed steps in order to get it.

Does Democracy Exist Now?

Let me go back to what I was saying about Mr. Churchill. Unlike Socialists and Radicals, Mr. Churchill believes that 'democracy' is *here now*. In deciding to hold a General Election in 1945 he thought of himself as "appealing to the democracy." But I am quite unable to recognise the many millions of voters who voted—and from my point of view voted sensibly—at the election as constituting a democracy. They were, in my view, not a democracy, but the victims of a system which was still denying them the means to become a democracy. Their political knowledge, on the average, was quite disastrously inadequate; and the scales were weighted against their sheer human common sense, which I by no means deny, by the concentration of many of the most effective forms of propaganda in the hands of persons who wished, not to enlighten them, but to bemuse. If they had been a democracy in being, there would have been no Press lords, such as Lord Beaverbrook, with vast power to feed them on red herrings and misconstructions; no film lords to censor their cinema programmes; no polite censorship installed at Broadcasting House, to enforce the evasion of 'dangerous' issues; no snobbery in town or country; no peers, no territorial magnates, no great employers with money to spend on confusing their judgement; no pageantry of Crown or Court. There would have been just men and women, making up their more or less active and instructed minds. Under such conditions, even if men and women were ignorant, the scales would not be weighted against common sense, and the natural leadership of the more intelligent would have a fair chance to assert itself in every little group of which the great society is made up. There would not be the contrast there is between intelligence armed with money-power, and intelligence without it. Education is important to

make democracy work well; but no large amount of it is indispensable to democracy. What is indispensable is the eradication of *undue influence*.

Democracy and the 1945 Election

It will no doubt be objected that, in face of all these obstacles, the electors of Great Britain in fact voted for the Labour Party in numbers sufficient to give it a very comfortable parliamentary majority, and that their having done so proves that Great Britain is really a democracy after all. It does nothing of the sort. It proves only that the British constitution has come, as a result of successive changes both in the size of the electorate and in its economic and social status and its education, to embody important elements of practical democracy, including a power in the hands of the electors, when they know their own minds, to put a Government of their choosing into office. It does not prove that such a Government, having assumed office, can do, without let or hindrance, anything that those who put it into office would wish it to do. Its power as a Government is in practice limited by the necessity of not dislocating the day-to-day working of the economic and social system; and it has in practice to walk warily whenever it is faced by any powerful vested interest in control of an important economic or social function. It cannot, even if it would, set out to change everything at once; and because it cannot it must square such innovations as it does make with the continued effectual operation of all the essential existing institutions that it is not ready to replace at once. This necessity acts on an innovating Government by pushing it continually in a conservative direction, and by compelling it to offer inducements to many groups and institutions that are in opposition to it to refrain from sabotage, and to continue to play their several parts in the conduct of society as a going concern. The House of Lords is not less an instrument of plutocracy, or the class of rich men less an anti-democratic force, merely because the Labour Party has won a majority in the House of Commons and is in command of the offices of State in Whitehall. The aristocratic social order goes on side by side with the democratic majority in Parliament, and does not forfeit its power and influence merely because there has been a change of Government which it dislikes.

What Kind of Democracy have We been Fighting For?

The question I want to ask, and to which everything I am saying here is related, is this. If we are all, in a manner of speaking, 'democrats' now, which of these various kinds of democracy

are we making our ideal, or our objective? Have we been fighting the Nazis simply to make the world safe for Mr. Churchill's kind of 'democracy'—which in my opinion is no democracy at all, but merely aristocracy, or even plutocracy, with a popular flavouring? Or is our aim something much nearer what I have described as the common creed of Socialists and Radicals, with its denunciation of privilege in both its aristocratic and its plutocratic forms, and a positive emphasis on giving the ordinary man and woman the chance not merely to vote, but to understand what they are voting about, and to play an active part in the control of society, to any extent to which they are minded so to do? Related to this is the question whether we believe in mass action as somehow good in itself, and hold that all democrats ought to think alike, or on the contrary value differences as contributions to a many-faceted truth, without ever losing hold of the faith that there is a real distinction between good and evil, and that, though it is possible to pursue the good in varying ways, there are also men who pursue evil, and must be mercilessly put out of the way of achieving their ends.

Political Judgment

It is, I am sure, very important to get our minds clear about this question of the 'right to differ' and its place in a democratic society. It is so easy to argue that, among alternative courses, one must be right and the rest wrong, and that, in matters of opinion, there must be one correct theory, and all the rest must be wrong. This is simply untrue. Among alternatives, one will lead to *a* and *b* and *c*, another to *d* and *e* and *f*, and a third to *g* and *h* and *i*. But *a* and *d* and *g* may all be good, *b* and *e* and *h* all bad, and *c* and *f* and *i* all neutral or doubtful. Which course is right? I have to choose, because the three alternatives are incompatible. I have to sacrifice things I believe good, in order to achieve things I believe better, or to avoid things I believe worse. Surely men are bound to differ, in such circumstances, in the choices they make, even if they are all willing as well as they can. It is only the one-eyed person, who is convinced that some one thing matters more than all the world besides, who can confidently assert that everyone who wills differently from himself must be willing wrong.

Now, there are moments in history when some one thing is so vitally important that everything else has to give way. We in Great Britain faced such a moment in 1939, and should have faced it sooner. The Russians faced such a moment in 1917; the French in 1789. At such moments there are only two possible

sides, a right and a wrong. But this is not the case under normal conditions, or in relation to the vast majority of the decisions we are called on to make. Much oftener, there are several possible courses, though it may happen that two of them, having become the battle-cries of the leading political groups, are argued about almost to the exclusion of the others. All these courses have demerits: perhaps not all of them merits. But even if some are wholly bad, it does not follow that one, and one only, is wholly right and good. We may, by arguing, be able to find a way that combines part of the advantages of more than one course, with fewer disadvantages than would be involved in taking any single course alone. Such argument is of the essence of democratic progress, as I see it, and is indispensable if progress is to be made without unnecessary suffering. But—and this is what the mere liberal is so apt to leave out—the argument is fruitful only if the thoroughly bad courses are thrown out at an early stage, and their advocates not allowed to spoil the rest of the arguing, and if there is a sufficient common element of values among the rival advocates who are left in the field. Compromise as an outcome of argument is a most excellent thing when it is made between persons who agree in their fundamental aims: it is the very devil when it is allowed to become a compromise between good and evil.

The political relevance of all this is that political differences are fruitful when they rest on a basis of broad human agreement about aims, but not otherwise. The moral is that a strictly disciplined party, though it may be a necessary evil for making and for consolidating a revolution, is not likely to be in the long run a good instrument of democratic construction. It is foolish to refuse discipline—even strict discipline—in the face of the enemy: it is most unwise to impose it when the matter in hand is one of planning a course of action among friends.

Accordingly, there is no absolute answer to the question, 'How much disciplining of thought and action ought there to be?' In order to make democracy, where it is not, the democratic forces may need a great deal of discipline, and similarly where it is a case of upholding threatened democracy against attack. But in running a stably based democracy the element of discipline should be very small, and always getting less, or the discipline will oust the democracy and we shall be back at tyranny over again.

Democracy and the Rule of the Majority

It is sometimes said that the meaning of democracy is that the will of the majority prevails. That is wrong. True, in a democracy

when there is an absolute clash between two rival views, neither of which admits of modification without sacrifice of vital principle, the will which has most persons behind it ought to prevail. But it is not democratic for 51 per cent. of the persons to force their will on the other 49 per cent., if a way can be found of giving another 20 or 30 per cent. a good deal of what they want without the 51 per cent. getting much less of what they want. Decisions by bare majority are always unsatisfactory, and never easy to work. A democracy which has a common basis of agreed principles can often avoid them, by giving free rein to discussion among its friends. But there remains the exceptional case of head-on conflict on a matter that does not admit of compromise or a way round; and in such cases alone can democracy be identified with the prevalence of the majority view. Such cases, we have seen, arise much more intractably in revolutions or wars than in the tasks of normal social construction. But they do arise in both types of situation; and the democrat who, to save his liberalism, omits to take account of them, is lost.

The Pattern of Post-war Living

What pattern of living, then, are we setting out to establish in post-war Britain? Let me ask the question more specifically, by taking the case of a town—say Plymouth—of which a large part has been blown out of existence by air attack. How are we to rebuild it? There were in it, before it was blitzed, rich men's houses and poor men's houses, rich men's shops and poor men's shops, rich men's quarters and poor men's quarters. Are we setting out to put them all back, just as they were? Up to a point, of course not; for nobody is proposing to rebuild the slums just as they were. But beyond that? Do we envisage the remaking of Plymouth as the putting back of a shell to fit the old social structure, or as a part of the process of creating a new social order? If we rebuild poor men's quarters and rich men's quarters, poor men's shops and rich men's shops, and all the rest of the old contrasts, shall we not be implying a wish to rebuild the old class-relationships of which the bricks and mortar and the ferro-concrete were the physical embodiments? We shall.

And yet, it may be answered, what else are we to do? We must build our cities for those who are to live in them, and if the inhabitants are in fact divided into social and economic classes we must give each class its appropriate provision, or things will not fit. Do we really expect Lord Astor and a dockyard labourer to live in the same sort of house, or to shop at the same

shops, or to live in any essential respect the same sort of life?[1]

Here we really are up against the necessity of deciding what we mean. In post-revolutionary Russia the Lord Astors, unless they fled abroad, were actually reduced to living pretty much the ame lives as the dockyard labourers, or even to faring worse. That levelling was part of the revolution, and, as things were, an essential part. After a time, no doubt, a new basis of differentiation appeared, much less extreme than the old. The higher officials, managers, scientists, artists and writers, and so on, got considerably better houses than ordinary people: and so did stakhanovite manual workers, when they wanted them more than other things. But the new well-to-do of the Soviet Union were a quite different class from the old rich of Czarist Russia; and the gulfs were a great deal less wide, as well as less impassable.

Should we now be setting out to rebuild our bombed cities in the social mood of the Russia of 1917, or of the Soviet Union to-day, or of the Great Britain of 1939, or in what other mood? It may be answered that our future class structure will be settled not on the plane of city-building but elsewhere; and I agree. But the question is none the less pertinent, and needs to be answered.

A Common-sense Answer

I suppose most people on the British 'Left' would answer, if they were willing to say what they really thought, that they were not expecting a British revolution on the Russian model, and did not desire one. Even the Communist Party put out in 1945 a tentative immediate programme which was no more revolutionary than that of the Labour Party, and much less so than the 'splinter' programmes of Sir Richard Acland's Common Wealth and James Maxton's I.L.P. Accordingly, few would suggest that we ought to take as our pattern of post-war living that of the Russia of 1917, which was essentially a pattern based on violent social revolution. I fancy that the favourite answer would run roughly like this. 'We ought to replace the slums with well-built houses, built up to a reasonable standard of accommodation, equipment and amenity. We ought to build enough new houses, of an equivalent standard, to end overcrowding and to provide for new families. We ought to do these things in such a way as to give adequate space, air, light, and garden ground. We ought to build, not merely houses, but also communal buildings enough to make

[1] No disrespect is meant to Lord Astor, who has actually taken a notable part in attempting to get better treatment for Plymouth and other badly damaged towns.

each district a centre of rounded social intercourse. We ought to mix up houses of different sizes and designs, so as to avoid one-class dormitory suburbs. For the rest, we ought to give no permits for the erection of big houses for rich people, or of luxury buildings of any sort, until the needs of the ordinary people have been met—and perhaps, by that time, a good deal of the demand for luxury buildings will be found to have melted away.'

That, surely, is a very sensible answer, as matters stand in Great Britain to-day. It is not a demand for 'democracy,' in any full sense; but it is a demand for a decisive priority for democratic over other claims. Such a demand is the characteristic attitude of progressive British opinion in respect of many things besides the building of cities. It is essentially what the Labour Party is putting forward; and it is also the spirit in which the Beveridge Report was written. In practice, it amounts to asking, in respect of new and constructive measures, something not very different from what is being done to-day in the Soviet Union, but to leaving in existence for the time being a great many things which were firmly uprooted in the Soviet Union after 1917.

Can It be made to Work?

This is the right policy—if it can be made to work. It fits in with the highly complicated class structure of British society, which cannot be simply divided up into proletarians and exploiters. It squares with the prevailing temper of the British people, who are singularly without class hatred. It is calculated to avoid the extremes of class conflict at a time when we shall need all our energies to re-establish the British economy on secure foundations in world trade and exchange. There is everything to be said for it —if it will work.

Whether it will work or not depends mainly on two things—on the making, and the practical acceptance by opponents, of enough changes in the basic economic structure of Great Britain to render a policy of full employment workable, and on the success of the Labour Government in administering our collective affairs steadily and courageously, but also tactfully, on the suggested principle of 'democratic priorities.'

Take, for example, this question of building. There will be an acute shortage of houses for years to come, whatever is done to provide them: nothing can now alter that. But it will make a great deal of difference to the feelings of the many who will be wanting houses they cannot get if they see big houses or luxury hotels or shops being built for rich people, who can afford to bid high for getting served first. This is not mere envy; for the diversion of

resources to luxury building will obviously slow down the satisfaction of more urgent needs.

Democratic Priorities

This principle of 'democratic priorities' is of the widest application. In hundreds of branches of production, the most profitable course is still to produce luxury goods for those who are prepared to bid high for them, and to leave the general run of the poorer consumers to wait. Nor can this be prevented without a continuance of public control, such as was imposed during the war in order to ensure priority for essential supplies. I do not mean that control will necessarily prevent it: that all depends on who operates the control, and in what spirit. What is incontestable is that it cannot be prevented at all without control.

The Future of Wartime Controls

Yet there is already going up in some quarters a grand clamour for the speedy removal of the wartime controls. Those who make this clamour usually pretend to be actuated by a strong belief in 'freedom' and to be the protagonists of the small employers and shopkeepers whom the 'Controls' are ordering about. Actually, they are for the most part the persons who hope to be left free to use their money in getting what they want for themselves, even if this means leaving much more urgent needs unmet. They include also, of course, the opponents of Socialism, many of whom at every opportunity conceal the defence of their own monopolist interests behind a pretence of zeal for the small shopkeeper or the ex-soldier who wants to set up in business for himself.

For my part, I have much sympathy with the small employer and the small shopkeeper, and as intense a hatred of bureaucracy as he can possibly have, even if he swallows the *Daily Express* whole. I want to see the 'Controls' operated on the side of the small producer or trader, wherever he renders a tolerably efficient and useful service; and I cannot abide red tape and civil service routineers. But I am not prepared to let the whole tribe of monopolists and exploiters of the public get away with it by posing as the defenders of the small man's freedom. Arrangements we must have for giving priority to democratic over aristocratic or plutocratic claims; and that involves control. Accordingly, we must set to work to democratise the 'Controls,' and not to sweep them away; and clearly the indispensable first step towards doing this was to get a Government which was fully committed to the principle of 'democratic priorities.'

Educational Priorities

I have spoken of towns and houses, but evidently the same thing holds good of schools. The Education Act of 1944 purports to be a democratic measure; but it will not work out democratically unless a real effort is made to staff and equip, and as soon as possible to build, the new secondary schools up to a standard of real parity with the grammar schools and the so-called 'public' schools. Nor will it work democratically if large numbers of schools are allowed to contract out of the principles of the Act and still to draw public money in 'direct grants' to enable them to maintain their old ways unchanged. It will not work democratically, if 'classics' are encouraged to look down their noses, as they have done hitherto, at technical education, or if headmasters and headmistresses are chosen preferably from among those who believe in the class system and will do their best to turn out pupils who believe in it. This does not mean that only Socialists or Radicals ought to be made headmasters or headmistresses; for party allegiance is no sure way of separating snobs from democrats. It does, however, mean that a holocaust ought to be made of Boards of Governors consisting largely of Blimps, and perpetually in search of masters and mistresses made in their own image. In education, as elsewhere, the principle of democratic priorities should hold the field.

Industrial Priorities

The other requisite—a sufficient change in the structure of industry both to ensure full employment and to make democratic priorities prevail in the economic sphere—I shall not discuss further here, as I have already discussed it in earlier chapters of this book. Instead, I propose to go back to the general question of the pattern of life after which we are proposing to live. To what extent is it to be a democratic pattern? If we are not to make short work of our privileged classes by any direct and immediate attack, such as took place in Russia, we shall have them with us still for some time yet—albeit perhaps with diminished incomes, prestige, and power for mischief. We shall therefore not be able, even if we would, to set to work making for ourselves a new pattern of living such as the men and women of the Soviet Union have been making since 1917. We shall be adapting our existing pattern, not making one which will be almost wholly new. What sort of adaptation do we mean it to be?

On the economic side, the adaptation of a pattern, as contrasted with the making of a new one, involves lifting up those near the bottom of the social scale to the level of those above, but not so very much, above them—for more than this the national income cannot immediately be made big enough for us to do, especially if we make no direct attack on the continued existence of the privileged classes. A realistic way of putting this is that we are setting out to enable the slum-dwellers to live at the standards of those at present living on the better council estates. That is the sheer economics of the matter; and, even economically, it is quite a formidable undertaking. Socially, it is much more formidable; for it involves processes of education in standards of health behaviour and cultural habits which, as the experience of evacuation has taught us, cannot be carried through in a day, or without immense efforts and an immense enlargement of our social services, especially in personnel. So far, however, the task, though formidable, can be clearly defined. But shall we be satisfied if we enable our slum-dwellers to remodel their ways of living on the pattern of the respectable inhabitants of a good Council estate? Even that would be much, but not nearly all we want, if we are democrats. It is possible to paint a quite idyllic picture of life in a good council house, with nice (or seeming-nice) furniture (bought on the instalment plan), a tolerable wireless set, a patch of garden, cheap heating and lighting on an all-in scheme, good water supply and sanitation, reasonable cupboard space and room for the pram, safe playing space for the children and a fair school reasonably near at hand, shops not too far off for the housewife, and a pub and a cinema within easy reach. By no means all Council tenants now enjoy these things; but we are setting out to make at least all these generally accessible for those who want them. Are they enough?

In a material sense, they are nearly all we can afford to aim at, for the present. Add to them what has been urged earlier in this volume in the way of Community Centres, Health Centres, Civic Restaurants, playing-fields and parks, and you have the utmost we can hope to achieve for some time to come, in the way of bricks and mortar and the physical environment generally. What more than this do we want? What more can we reasonably expect to achieve?

The Building of Democracy

The answer must surely be 'A more sociable and neighbourly way of living, and a more widespread and active knowledge of,

and participation in, the collective affairs both of the small society of the local community and of the great society of the nation, and beyond the single nation.' If we are to build democracy, we must build democrats to take part in running it, not only nationally, but in every local and functional group of which the great society is made up. Unless a spirit of active political and social interest pervades these groups, no sort of constitutional machinery can yield democratic results.

How, then, are we to set about the stimulation of this democratic spirit in the daily thoughts and doings of the people? Education, especially adult education in its newer and further-reaching forms, is of course part of the answer. But education is not the whole answer, or even perhaps the major part; for education will never appeal to the main body of the people unless it is directly connected with doing as well as learning. If men are asked to learn only about national or world problems which seem too remote for most of them to have any prospect of influencing their course, some will be interested, but most will give at best no more than a superficial attention, if any at all, and this superficial attention will fail to make any real impact on their minds or views of life.

Life in Town and Village

There is, in effect, no real school for democracy except the school of action. Of the political conditions of this schooling I have spoken at large already: here I am concerned with it as it affects the pattern of living in town and village. Unless we can establish in these centres of social activity democratic ways of life, we may whistle for democracy on the national and international planes. Some will say that, if this be so, we may indeed whistle for it, because the requirements of efficient administration will compel us to organise our local government over larger and larger units, in which the ordinary citizen will be hardly nearer to the seat of power than he is in the affairs of the whole nation. But I cannot see that this need be so, unless we will have it so. I am not denying that, for certain services, larger units are needed, and even larger units may be needed ere long. But to take this as a proof is to regard local government as having fixed functional frontiers, whereas in truth its frontiers are in process of being enlarged and require much more enlargement. Suppose we do organise our main health services, our education, our town and country planning, and our public utility services round regional centres with authority over large areas, does that really leave nothing to be done collectively on a small scale? I shall be told that our existing

small units of government, the Parish Councils in the country districts, are notorious failures; but why do they fail?

They fail, in the first place, because hardly anybody is trying to help them to succeed. The administrators are against them; for the administrators are trying to concentrate authority in their own hands. They have no tradition of achievement, because they have been given no targets at which to aim, and no help in formulating policies of their own. Finally, they are set in the midst of the most undemocratic part of our society, in a political sense; for the countryman has been long trodden down by his 'betters,' and has taken refuge in a private life that holds aloof from public affairs as being none of his business. Thanks to improved economic conditions, the countryside is beginning to wake up at last, and may prove, when it is roused, to possess an unexpectedly strong natural talent for democracy. But the results of this awakening cannot show themselves at once: for the immediate future, if we are minded to try out the capacities of small-scale direct democracy, we must make our main trial of it in the towns.

The towns, then, I say, should have their equivalent to Parish Councils—their Ward Committees and Ward Meetings, or whatever we may choose to call them—representing the citizens of quite small neighbourhood units such as Professor Fawcett has insisted on in his writings, and Professor Abercrombie in his now celebrated Plans. The functions of the bodies representing these neighbourhood units should be centred upon the management of Community Centres, of Health Centres in their non-medical aspects, of primary schools, of communal restaurants, and of playgrounds and open spaces. The local Councillor representing the Ward, or a section of it, should act closely with the elected committee of his ward-mates, and should carry their views to the larger Council of the city or the town. The local Member of Parliament should report to them, or to their delegates; and the delegates should report back, so that his conduct can be thoroughly discussed. The Ward Meeting should be the primary cell of democracy, the place where ordinary men and women, acting together in small things, can learn to deliberate together about greater things, and to control their representatives in the wider spheres of local and national government.

World Order and the Spirit of Community

None of this, I know, fits in with our present pattern of living, or with its tendency, which is to divorce the ordinary citizen more and more from doing things in politics, and then complain of his lack of political interests and his apathy about education in

citizenship. How can we expect him to be anything but apathetic when, in the vast majority of cases, the education he is offered has no relation to action, or at any rate to any action that seems to him to fall within the range of his powers? Ordinary men and women can only understand what is at stake at Dumbarton Oaks or San Francisco, or for that matter at Westminster, if they can visualise it as a magnification of their own practical affairs. Preventing Fascist aggression in the world is, after all, at bottom the same thing as keeping in check an unneighbourly neighbour who steals one's apples or garden tools, and never returns what he has borrowed, or commits persistent 'nuisance' by his insanitary or drunken habits. But people do not see the problems as the same unless they have learnt in practice to deal with their neighbour in an orderly way, as a community acting together. Nor do they see the national problems of government and organisation as analogous to the little problems of their own street or block of flats or housing estate, unless they are given a real place in the collective management of their small, local affairs.

If we mean democracy, we must live together in a more communal and neighbourly way, and run our own local affairs more as self-governing communities. Education, in school as well as among adults, should constantly foster this way of living; and the whole endeavour of government from higher up should be to hand power down and not to engross it. Within the existing scope of local government, this can hardly happen; for the technical pressure towards administrative centralisation is too strong. The answer is—Widen the functions, to include the new territories I have mentioned, which are mainly functions capable of being organised, subject to co-ordination by larger authorities, on a small scale, and indeed must be so organised if they are to be in any real sense democratically arranged.

It comes to this. If we are content with what I called at the beginning of this chapter 'Churchillian democracy,' nothing can save us from getting steadily less and less democratic as the technical scale of operations gets bigger. More and more functions will get into the hands of 'functionaries': more and more power will be concentrated in the hands of a few men who will manipulate all the devices of modern propaganda to keep the people bemused and practically apathetic. Only if we set out to build the 'radical' democracy which I contrasted with the Churchillian variety shall we be able to make little men the masters of a world given over to hugeness by the scale of its technical achievements. And even so, we shall not be able at first to build more than a partial democracy, because the surviving elements of privilege and

power will be alien to it, and incapable of participating in its development.

All this, be it borne in mind, is written on the assumption that there will be no British Revolution. It is written on the assumption of a democratic policy which will attack existing vested interests no more than is necessary to secure the foundations of a new order, but will strenuously resist every attempt of the vested interests to gain fresh ground. It rests on the assumption that this policy, which is the Labour Party's and in essence that of most 'progressives,' will be competently and stubbornly, though moderately, pursued, and on the further assumption that, to the extent to which this is done, there will be no counter-revolution. If these assumptions should be falsified, the needs of the situation will become altogether different; and so, I think, will the people's mood. For, unless the people get something near to full employment, real social security, and a housing programme they regard as not much worse than the best that circumstances allow—to name only the most obviously expected things—their mood will quickly change, and the tolerance and moderation that characterise it now will not endure. What the new mood under these circumstances would be, or whose cause it would serve, I do not know. But I hope it will not be provoked into existence.

PART FIVE

INTERNATIONAL DEVELOPMENT

CHAPTER I

THE PROBLEM OF INTERNATIONAL INVESTMENT

THE TASKS OF RESTORING the world's economic equipment shattered by war and of developing the economic capacities of the backward countries so as to raise standards of living are first and foremost tasks calling for *investment* in capital goods. The lost productive capacity cannot be put back, or the undeveloped capacity brought into active existence, without investment of capital on a very large scale. Capital goods are not, of course, the only requisites for economic development; for the knowledge of the right way of using such goods is also indispensable. Where it is a matter of restoring what has been broken, the knowledge can in most cases be assumed to exist: where new industries have to be created the knowledge has to be brought into existence as well. Let us, for the moment only, set aside this second factor and concentrate our attention on the need for capital investment in devastated and in backward areas alike.

Capital investment always involves the use of man-power, as well as of materials, for making things destined not for immediate consumption but for adding to the resources available for use in the future. It can be employed to create roads or houses, which will be gradually consumed over long periods, or to create instruments of production, which will be used to make goods until they are worn out or rendered obsolete by the invention of improved machines. It can also be employed to improve the productive quality of land, or its amenity value, or to create schools, hospitals, and other public erections which will contribute either to raise the productive quality of the people or to improve their conditions of life. Every such application of man-power and materials necessarily involves, for the time being, a subtraction from the quantities of these things that can be made available for meeting the demands of immediate consumption. It may not involve the production of fewer goods and services for consumption than would otherwise have been produced; but it can fail to involve this only if man-power would have been left unemployed had the capital goods not been made. On the assumptions of full employment, the production of capital goods—that is, real investment—always involves a smaller output of consumers' goods and services

than would have been available if economic effort had been devoted entirely to making things to be used up at once.

Of course, if this were to be done, a community's productive capacity would not stand still: it would rapidly deteriorate. A substantial fraction of each year's productive effort has, in every community, to be devoted to maintaining productive capacity, quite apart from increasing it. In Great Britain, for example, it has been officially estimated that, in 1938, out of a gross investment of £690 millions (excluding investments made by public bodies) no less than £340 millions went on replacements and renewals of existing capital goods, leaving only £350 millions for the increase of capital resources. Moreover, another £45 millions was accounted for by the using up, without replacement, of stocks of goods which existed at the beginning of the year: so that the sum-total of new investment in capital goods was not even £350 millions, but only about £305 millions. There was, no doubt, in addition to this some net real investment by public bodies in houses and other buildings, roads and bridges, and other equipment; but the total was not large. Out of a total private income of about £4,600 millions, excluding incomes which were merely transfers made by way of taxation, the British people, in 1938, applied about 6½ per cent. to increasing their stock of capital goods with a view to higher production and consumption in the future.

Such estimates are necessarily no more than approximate; but they are good enough for the purpose in hand. Obviously, the higher the standard of living among a people is, the less difficult it becomes to set aside a proportion of its productive resources for adding to its capital store. As against this, the poorer a country is, the more investment it needs to lift itself out of its poverty by improving its productive power. This is the classical case put forward in favour of foreign investment by the wealthier countries in the less advanced. The former, it is argued, can spare the capital, which will, moreover, tend to yield a higher return when it is invested in areas where capital is scarce than it could in countries where capital resources are already plentiful. Therefore, the investors in the richer countries will benefit from getting high returns on the money which they lend for buying instruments of production for use in the poorer countries; and the borrowers will benefit as well, because the invested capital will leave a surplus even after the charges for interest have been met.

Foreign Investment under Capitalist Conditions

This is the capitalist doctrine of foreign investment, reflecting the actual practice on which such investment has been based.

There have, of course, been many instances in which capitalist investors in foreign countries have lost their money, sometimes by putting it into commercially unsound projects and sometimes because of the borrowers' default. But on the whole, foreign investments have yielded high returns to the capitalists of the wealthier countries; and in practically all cases the Governments as well as the company promoters in the more backward countries have had to pay a large toll in interest or dividends on any money which they have borrowed from abroad.

It follows that foreign capital has been available only for projects which have seemed likely to yield high returns, or in respect of which Governments have been prepared to accept responsibility for the payment of high rates of interest. Nor has this been the only limiting factor on the supply of foreign capital for the economic development of the backward countries. Where such capital has been brought in, it has often been introduced under the auspices of foreign companies, which have developed their enterprises in such a way as to fit in with their own needs rather than with those of the countries in which their investments have been made. This applies particularly in the case of mineral development. Large foreign capitalist concerns which have wanted supplies of raw materials for their own enterprises have come into a backward country and exploited its mineral wealth for their own purposes, but have usually preferred to limit development on the spot to the extraction of the raw minerals, or at most to the earliest stages of working them up, the later stages of production being carried on in the more advanced areas. The foreign concerns have, in addition, usually brought in their own skilled and supervisory labour, at wages and salaries a long way above those paid to the labour of the country in which the investment is made; and these foreign employees have usually remitted a large part of their earnings abroad. In such cases, most of the revenue derived from the natural wealth of the backward country has been apt to accrue to the capitalist concerns abroad and to their foreign employees, and little or no capital which could be used for further development has accumulated in the backward country. The work carried on at the mines and smelting works has of course increased the amount of industrial employment and has done a little to relieve the pressure of population in the peasant areas. But the contribution thus made to raising the standards of income in the backward countries has usually been quite small.

The Main Needs of the Backward Countries

If the problem of economic development were envisaged from the standpoint of the peoples of the backward countries rather than to suit the convenience of the foreign capitalist concerns, plans of economic development would be worked out in quite a different way. The most urgent needs of the backward countries are (1) to improve standards of agricultural production, (2) to improve transport conditions, so as to secure better access to markets, both at home and abroad, (3) to produce at home supplies of cheap consumers' goods, such as are needed by peoples emerging from a very low standard of life, and (4) to develop improved public utility services, especially electricity and water, for town and country alike. These four things are set down not in an order of priority, but as needing simultaneous action within a general plan of economic development.

(1) *Agricultural Productivity.* The improvement of agricultural production is partly a matter of knowledge, and is closely bound up with the spread of education. But knowledge alone may help the peasant but little, unless he has the means of applying it—capital to put into farm buildings and equipment, the improvement of the soil, and the introduction of superior stock, and also access to markets that will enable him to resort to more diversified forms of agricultural production. The peasant often farms at a very low standard because for want of capital or of access to markets he has no means of farming in any better way. The production of eggs, vegetables, fruit and milk, for example, depends on the possibility of getting the goods to a market where they are wanted with reasonable speed and without paying too heavy tolls to middlemen on the way. Such production also calls in each area for more capital than the traditional routine of peasant agriculture; and the peasant, usually in debt and compelled to sell his produce speedily at all costs in order to obtain the wherewithal to pay his rent or meet mortgages and other moneylenders' charges, is in a very bad position for borrowing capital for further development of his farm. The conditions of rural water supply are often very bad, and severe drought may sweep away the results of the peasant's labour. Public application of capital is needed in many areas for irrigation as well as for the supply of water for stock.

(2) *Transport.* Transport conditions are thus closely bound up with the raising of agricultural standards. The backward countries have for the most part few railways—and what they have were often built much more for strategic reasons, or to suit the interests of foreign companies, or for other reasons which have little to do with the welfare of the areas through which they pass,

than for purposes of internal economic development. These countries have few good roads: indeed, most of the rural areas are served only by tracks which hardly anything has been done to improve. River navigations help the districts adjacent to them; but most rivers have not been developed for transport, and there are few of the canal links which are needed to join rivers up into a network serving large areas. Road construction of a type that can be used by motor traffic is an extremely costly affair. It is quite beyond the resources of local governments in backward territories, and cannot be tackled at all except by energetic State action, which has rarely been forthcoming, and indeed requires a kind of Government very different from those by which most backward countries have actually been ruled.

It is a further important factor that the railway systems of the backward countries of Europe, and to some extent their road systems too, were constructed to serve quite different areas from those which are now under the jurisdiction of the separate national States. This applies particularly to the territories which up to 1918 belonged to the Empire of Austria-Hungary; for the new frontiers established after the first World War cut right across the old arrangements of transport. It often happened that the easiest route in respect of transport for the peasant's produce—or of course for local industrial goods—was effectively barred because there ran athwart it a frontier at which high customs or transit duties were levied; and there might be no alternative route by which the excluded products could reach markets within their own State.

This problem of railway development raises vital and difficult issues. Ought railway systems to be reconstructed on the assumption that each State is to build up its own internal arrangements by itself, with little regard to what is done in other States, and that high customs duties, obstructing the movement of goods to the most convenient markets, are to remain the common practice? Or can we look forward, over large regions, if not over Europe as a whole, to commercial conditions which will make it easy to market goods where they are wanted and can be conveyed at least real cost? On the former assumption, it will be necessary to build up in each State a transport system designed mainly to facilitate carriage from place to place within its own frontiers, and to relegate the question of international communications to a minor place—to the great and obvious economic loss of most of the peoples. On the latter assumption, railway as well as river transport plainly calls for international planning at least on a regional scale, and the opportunities for the peasants to diversify

and specialise their methods and forms of production are likely to be very much increased.

(3) *Production of Consumers' Goods.* Thirdly, as I said, plans for the economic development of the backward countries ought to include provision for the production of supplies of cheap consumers' goods of types needed by populations living at or emerging from very low standards of consumption. Here at once a difficulty arises. It is obviously necessary in the first instance to select for development industries which do not call for a high degree of skill, or at any rate for a high proportion of skilled labour. Moreover, where labour is plentiful and capital scarce, there is obviously a balance of advantage on the side of industries which use a high proportion of labour to machinery and other capital goods. This is one factor which tends to favour mining; for most types of mining are, in the phrase of the economists, 'labour-intensive,' whereas modern manufactures, carried out on a large scale, tend to become more 'capital-intensive'—that is, to require a large expenditure on capital goods for each worker employed. In face of the shortage of capital, it is necessary to look in the first instance largely for industries which can be conducted with relatively inexpensive capital equipment; and fortunately, quite a number of the industries producing everyday consumers' goods fall partly into this category. Many kinds of textiles and clothing, including boots and shoes, as well as furniture, processed foods, and a good many miscellaneous consumers' goods can be turned out with reasonable efficiency in middle-sized factories using only a moderate amount of capital equipment and only a modest proportion of highly skilled labour and technical supervision.

It is, however, not to be expected that in most cases the backward countries, even if they can establish such industries as these in a tolerably efficient way, will be able at the outset to be as efficient as the corresponding producers in advanced countries who are armed with more capital equipment and much greater manual, technical and managerial skill. In the long run, the industries of the less developed countries may be able to catch up; but it would be absurd to imagine that they are likely to be able to begin as the equals of the mass-production industries of more developed countries in turning out cheap consumers' goods. In the past, the countries which have set out to develop industries have usually regarded this inferiority as constituting a valid case for tariff protection—often put forward ostensibly as a temporary measure, to give the new manufacture time to find its feet. This tariff system, however, has worked out very badly. The tariff has

often served to bolster inefficiency rather than to stimulate improvement; and it has also become the basis for endless wire-pulling by interests of every sort and kind. Moreover, the tariff method has usually meant that each country has tried, by means of high duties, to attract to itself whatever industries it could, with the result that in each country there have grown up a number of weak industries supplying only home markets, whereas much better results could have been secured if neighbouring countries could have agreed, under a regional plan, to develop complementary industries for the supply of one another's consumers as well as of their own.

Over and above all this, high tariffs have meant high prices to the consumers, and accordingly limited demand. It has often seemed to the manufacturer in a backward country more profitable to aim at producing luxury or semi-luxury goods for the small wealthy or relatively well-to-do section of the population that can afford them than to endeavour to get down to prices which the main body of the people can pay. Occasionally, a foreign capitalist, finding himself shut out from a particular market by the tariff, has been led to set up a highly equipped mass-production factory inside the tariff wall; but in some such cases all that has been set up has been an assembling shop, or at most a factory for carrying through the final stage of manufacture on goods mainly processed elsewhere.

The problem that has to be faced is this. If new industries set up within the frontiers of backward countries are bound to be, at least at the outset, in most cases less efficient than the exporting industries of the more advanced countries, and if tariff protection is self-defeating because it tends to perpetuate this inefficiency and to keep up prices beyond what most of the potential consumers can afford to pay, what is to be done? It has to be borne in mind that the problem is not mainly one of displacing imports by home products: it is one of making many more consumers' goods available at prices within the reach of populations which have hitherto gone lamentably short. In order to achieve this prices must be kept as low as possible, and assuredly nothing must be done to inflate them by protective tariffs. The old free trade answer would have been that nothing should be done to encourage industrial development under such conditions, because it would be clearly to the advantage of the peoples of the backward countries to buy cheap imported goods rather than more expensively produced home supplies. But this answer misses the point. The imported goods, however cheaply they may be produced, can be paid for only out of the proceeds of the exports of the backward countries;

and it may be impossible so to expand exports as to make payment for the imports which the peoples of these countries would like to buy. If foreign exchanges are uncontrolled, pressure to buy imports beyond what can be paid for by means of exports at current prices will speedily raise the prices of the imports by causing a depreciation of the exchange value of the country's money. If the exchanges are fixed or controlled, it will become necessary to limit the quantities of imports that may be brought in, either by imposing high tariffs or by direct quantitative restriction or rationing of foreign exchange. In none of these conditions will the poorer consumers be able to get the goods they need and want; for either the goods will be too dear, or only strictly limited supplies of them will be available.

The only course that remains open is for the country which is setting out to expand its supplies of cheap consumers' goods, while limiting imports within its national capacity to pay for them, to ensure that the factories which are set up within its frontiers sell as cheaply as possible and do not use the limitation of imported supplies as a means of exploiting the consumers. How is this to be done? It has been done in Turkey largely by establishing State factories, which have been carried on with a view not to maximum profit but to the expansion of low-priced consumers' supplies. If necessary, the State can actually subsidise production in the new factories, while they are finding their feet. If it does not wish to run them itself, it can lease them to business men under stringent conditions regulating the prices at which the products may be sold. It must, of course, as part of such a policy control imports; and it will have in most cases to supply the capital and own the factories, even if it decides not to operate them directly—for private capitalists, home or foreign, will probably be unwilling to put up the capital unless they are given full freedom to exploit the public.

The Need for Low Interest Rates

The Governments, however, of the backward countries can afford to act in this way only if they themselves can get the capital which is needed at a reasonably low rate of interest; for otherwise the subsidy needed to bring the products within the means of the main body of the people will be too high to be faced. The capital that is needed will in most cases have to be raised partly abroad; for much of it will have to be spent on plant and machinery which can be bought only from the advanced countries. Part of the work, such as the erection of buildings, can indeed be financed by means

of capital raised at home; and it is of vital importance that this should be done. But there is bound to remain a need for borrowing abroad, unless (which is most unlikely) the backward country can so expand its exports as to pay directly for the imported capital goods without involving itself in serious difficulties over foreign exchange.

In a few cases, the less developed countries are at the present time in a peculiarly favourable position for importing foreign-produced capital goods without foreign borrowing. This is where, during the war, they have exported to the belligerents large quantities of goods for which they have not been paid, with the result that they have now large credits in the advanced countries. India, for example, has huge credits outstanding in Great Britain; and so have some of the Latin-American countries, the British Dominions, and a few neutrals, such as Turkey. Countries which have such credits in Great Britain or the United States can obviously use them, as fast as they can be set free from exchange restrictions, to buy capital goods which they would not otherwise have been able to afford. In the case of Great Britain, which will have for some time to come considerable difficulty in balancing its international current accounts by selling enough exports to pay for necessary imports, the existence of these credits constitutes a very difficult problem. If they were to be extensively drawn upon in the near future, nothing could avert a serious exchange crisis; for if exports to the tune of many hundreds of millions had to be sent out without the receipt of any imports in return, the British economy would be reduced to a parlous state. There must accordingly be some regulated arrangement for spacing out the liquidation of these wartime debts; but over whatever period payment has to be spread, the creditors will be able to use them, if they so desire, in buying machinery and other capital goods to aid their own economic development.

Most of the backward countries of Europe, however, have no such credits upon which they can draw—or, if they have, the debtor is Germany, with a certain incapacity to pay for a long time to come. How far Germany can pay in the end will depend on the policy followed in allowing the restoration of German industry and on the demands made upon it for reparations. These are questions which are to be discussed in a later chapter; and I need say no more about them now.

To the extent to which the backward countries need to borrow capital from abroad, in order to purchase capital goods, it will be vital for them to be able to borrow at low rates of interest. High rates, as we have seen, would make impossible the development

of local industries for the supply of cheap goods to needy consumers. It seems clear that, if interest rates are to be low, both lenders and borrowers must be Governments, or government agencies, rather than private persons or companies, and also that the intermediate commissions and other charges, which have so inflated the cost of ordinary commercial borrowing in the international field, must be ruthlessly cut out. Governments which take the appropriate steps to regulate their own investment markets and to keep down domestic interest rates can get capital on cheap terms and can afford, subject to their own exchange positions, to lend capital on cheap terms to the countries which need it for reconstruction or development. Unless the requisite capital is actually raised and lent in this way, it cannot be made available to the countries which need it on terms with which they can afford to comply.

The Bretton Woods Plan

This problem, of the conditions on which capital is to be made available by international action for the reconstruction and development of the needy countries, was one of the main issues discussed at Bretton Woods in July, 1944, between the experts of the British and American Governments. The plan there worked out had two parts. One part of it dealt with problems of international short-term credit and of currency stabilisation, while the other embodied a scheme for an international bank to facilitate long-term lending. The Bretton Woods Conference was attended by representatives of forty-four Governments; and all the delegates gave general assent to the conclusions. But they had no power to bind their Governments; and, though some years have passed since it was drawn up, and the proposed International Bank has been brought formally into existence, no one can yet say how far it is likely to be carried out. In relation to the whole of this problem, the United States obviously occupies the key position, as the only country which can possibly be in a position in the near future to make large international loans, and also as the main potential provider of short-term finance during the period of reconstruction.

It is therefore significant that the Bretton Woods Plan as a whole came under strong fire from certain sections of American opinion, which professed to see in it a plot both to make the United States the milch-cow of Europe and to encourage government participation in business to the detriment of "free American enterprise." The proposals for an International Monetary Fund, designed to supply needy countries with short-term international

credits during the period of transition to normal conditions of stability, were, no doubt, much more actively attacked in the United States than the proposal for an International Bank of Reconstruction and Development, to supply long-term finance. Many American bankers and business men argued that there was no need for an internationally controlled fund for this purpose, and that, as America would be called on to supply most of the money, American financiers should be left free to make their own arrangements about the conditions of supply. This, of course, would have meant a return to the old conditions, under which needy countries had to pay dearly for such financial accommodation as was accorded them. It was, in effect, a denial of the whole idea that the world's financial problems need tackling by international action designed to prevent depression from being induced by the desperate efforts of needy countries to make their international payments balance. As against this, the plan for an International Fund, in the form in which it was originally put forward by Lord Keynes, was meant to have a definite expansionary effect. Underlying it was the idea that every country should pursue a policy of full employment, and that the additional purchasing power which economic expansion would require should be created internationally, in such a way that every country would be able to exercise an increased purchasing power over other countries' goods. It was hoped that if, by this expedient, post-war production in all countries could be given a flying start, the processes of international trade would be set going and each country would be enabled to balance its imports and exports at a high level before the effects of the initial impulse had worn off. The project emerged very much modified when it had run the gauntlet of American criticism and had been further mauled at Bretton Woods. In its final form, while it retained a little of its original expansionist character, it was much more a plan for restoring the international gold standard than for stimulating international trade.

Nevertheless, to many who disliked it in its final form, it seemed unwise to reject it, provided that there went with it the parallel plan for an International Bank with the function of organising long-term loans. The Bank for Reconstruction and Development, in the form in which it emerged at Bretton Woods, is to have a capital stock of 10,000 million dollars, of which only one-fifth is being called up in the early stages of its work, the rest being called for as it comes to be needed. Each country adhering to the arrangement for an International Monetary Fund is to become a subscribing member, either directly or through its Central Bank.

Ten per cent. of the capital called up is made payable in gold or dollars, and the rest in the currency of the subscribing country. With the capital thus raised the Bank is empowered to make loans or to give guarantees in respect of loans raised elsewhere, but only up to a total sum equal to its subscribed capital. The loans and guarantees are to be made only for specific projects of reconstruction or development; but they are to be available equally for restoring assets damaged or destroyed by war and for creating new assets. Special regard is to be given in making loans to countries which have suffered as a result of enemy occupation or of hostilities carried on upon their lands.

Loans are to be made by the Bank either to Governments or to any form of business, industrial or agricultural enterprise carried on in any member country; but where loans are made to any party other than the Government of the country in which the proposed work is to be executed, there is to be, as a condition of the loan, a firm guarantee of both principal and interest by the Government in question, or by its Central Bank. There is a further proviso that loans are to be made by the International Bank only when it is "satisfied that under prevailing market conditions the borrower would be unable otherwise to obtain the loan as reasonably." In every case, projects involving loans are to be scrutinised by a specially appointed committee, and the loans are to be given only if the committee approves.

In addition to making loans of its own, the International Bank is authorised, on a much larger scale, to subscribe to loans raised by other agencies, and to borrow money, over and above its own funds, for the purpose of subscribing to such loans; and it is also entitled to guarantee loans made by private investors, making a charge of from 1 to 1½ per cent. for this service.

Commentary on Bretton Woods

It is easy to see that the terms proposed at Bretton Woods for the operation of the International Bank were meant to circumscribe its functions. Its direct loans were to be subject to conditions which involved that they could be made in practice only for very large operations passing beyond the limits of private finance; while the power to subscribe to or guarantee loans made by other agencies was meant to ensure that the Bank should be used to facilitate the operations of private international financiers rather than to become their rival. Particularly in the United States, jealousy of any extended state intervention in the tasks of reconstruction and development is very strong; and the plan was acceptable, where it was accepted at all, only because of the

obvious fact that private financiers, however eager they might be to secure the profits of reconstruction and development, would not be prepared to accept the risks involved in major projects, even if they were reinforced by unilateral guarantees from the Governments of the borrowing countries. The financiers wanted a security implicating their own Government; and even the hardest-headed business men realised that it was impracticable to ask for full guarantees while rejecting any control at all.

Accordingly the linked proposals made at Bretton Woods for an International Monetary Fund and an International Bank emerged as a compromise, heavily weighted to meet American objections because it was mainly to America that the rest of the world had plainly to look for the accommodation which was required. It is to be noted that the Americans wrote into the bank plan a special clause laying down that "the Bank shall impose no conditions that the proceeds of a loan shall be spent in the territory of any particular member or members" (that is, member countries). A similar condition was laid down in respect of private loans guaranteed by the International Bank. The object of these provisions is to prevent the Bank from being used to make or facilitate loans the proceeds of which are to be used only in purchasing goods from a particular country. This is all very well for the Americans, who can rely under most conditions on having a considerable surplus of exports over imports available for foreign lending. Countries less fortunately placed may be quite unable to afford to make loans which may lead to a demand not for their own goods but for dollars to be used in buying goods from America. Great Britain, for example, has now, in view of the loss of income from foreign investments, to pay for imports mainly out of the proceeds of export trade, and will certainly have for some time no surplus out of which loans can be made on conditions that will allow the borrowers to spend them where they will. Great Britain will be in a position to supply, by way of loan, capital goods which are an addition to normal exports, and will therefore be in a position to make loans which can be used to buy such goods. But loans of this kind, owing to the American attitude, will have to be made without any guarantee or participation by the proposed International Bank. This need not matter, provided the British Government is prepared to assume the responsibility for making the loans. Private financiers are most unlikely to make them on reasonable terms without the State's guarantee; and the State, if it is to be called on to guarantee the loans, had much better make them itself.

(4) *The Development of Public Utilities.* One of the fields in which

large international loans will be most urgently needed for some time will be the development of public utility services in the backward countries. The gigantic progress made by the Soviet Union in the economic field has been based mainly on the intensive development of electric power. The Soviet Five Year Plans were pioneered by Lenin's original plan of mass-electrification, which was laughed at when it was first put forward on the ground that it proposed a provision of electric current far in advance of possible requirements for a long time to come. It was precisely because power supply was thus planned well ahead of current industrial needs that the Soviet Union was able before long to make the vast strides which it did make in both industrial and agricultural production. The key to successful economic planning for the development of backward regions all over the world is to be sought largely in the growth of electric power, based on water wherever the necessary conditions for intensive hydro-electrical production exist. The achievement of the Tennessee Valley Authority in the United States, in face of many artificial handicaps imposed by private interests, has shown the immense possibilities of agricultural as well as of industrial progress in hitherto backward areas under the impulse given by electrification based on water and carrying with it the damming and control of rivers, with beneficent effects on huge areas of agricultural land. The great rivers of Central Europe, no less than those of Russia, offer scope for large-scale development on T.V.A. lines. What has been done by the Russians in the Dnieper and by the Americans in the Tennessee Valley could be paralleled in the Danube area and elsewhere if the requisite arrangements could be made to create projects which would inevitably cut right across national territorial divisions.

The Danubian Problem

This is indeed the point at which the cutting up of Europe into a large number of separate sovereign States, often bounded by rivers, comes most decisively into conflict with the economic needs of the peoples. The river Danube begins its long course in the Black Forest, flows through Bavaria into Austria, then between Hungary and Slovakia and on down the centre of Hungary to Belgrade and the Iron Gates. From a point some way east of Belgrade it forms for a long stretch past the Iron Gates the boundary between Yugoslavia and Roumania, and thereafter between Roumania and Bulgaria along most of their length, until it curves northward to part the Dobrudja from Roumania proper, and to find its devious way to the Black Sea by the southern

frontier of Bessarabia—now part of the Soviet Union. Moreover, along all its length there flow into it important tributaries, so that all the 'riparian' States—i.e. those whose territory lies along its banks—have interests in it by no means limited to the immediate districts through which it flows. The Danube is one of Europe's main commercial arteries. Stretches of it were regulated before the war by two international commissions—one set up after the first World War, the other much older—which afforded matter for many lively disputes concerning the rights of navigation, river-tolls, and similar questions; and it is also potentially the source of giant power, which could be applied to add immensely to the wealth and productive resources of every country which it touches in its long course.

The weak international arrangements that have hitherto existed for the regulation of the Danube and of other great European waterways have been designed mainly to ensure at least some freedom of transit for the goods of the various countries interested in the navigation. The powers of the commissions have not extended to any matters beyond keeping the rivers clear and regulating the conditions of movement of vessels and barges and the right to levy tolls or impose restrictions on traffic. There has been no question of a concerted development of their water-power or of international plans for putting their water to use in improving the productivity of the entire regions served by the main rivers and their tributaries. Yet this is plainly needed if the countries of Central Europe and the Balkans are to be set on the road to an economic development comparable with that which is taking place in the Soviet Union. There ought plainly to be some sort of Danube River Authority, with powers comparable with those of the T.V.A., but operating on an immensely larger scale.

A Danube International Authority

How could such an authority be constituted? It would obviously have to include direct representatives of the Governments of the riparian States, from Germany in the west to Bulgaria and Roumania and the Soviet Union in the east. It would probably need to be constituted as some sort of international corporation, with Governments as its controlling shareholders and power to raise bonds to cover the capital cost of the extensive works which it would have to undertake. It could be made answerable, and in matters of high policy subject, to the Economic and Social Council which has now been constituted as one of the main instruments of the new World Authority brought into existence at Dumbarton Oaks and at San Francisco.

It is eminently the type of project which could be financed with the aid of the proposed International Bank of Reconstruction and Development, either by way of guarantee or by direct provision of the capital required, or by a combination of the two methods.

The obstacles to the carrying out of such a project as this, apart from the sheer magnitude of the capital cost, are on the one hand the jealousies of the States which would have to collaborate in it and their insistence on the rights of national sovereignty, and on the other the desire of Great Powers which are not riparian States to share in the control in order to secure "equal access" for the commerce of all nations—in other words, to prevent the riparian States from agreeing upon any preferential conditions among themselves. The whole question thus becomes involved in the tussle of power politics between the Soviet Union on the one side and the Americans, backed by the British Foreign Office, on the other.[1] Even if the International Danube Valley Authority were in form purely a economic body, with no political powers or functions, it would be bound to exert a preponderant influence over the course of economic, and therewith of social, development over a large part of Central and Eastern Europe. Even if those in charge of it did their best to hold the balance even between the claims of the various States to shares in the advantages which the Commission would be in a position to confer, disputes would inevitably arise, and some countries would inevitably allege that they were getting less out of it than they had a right to expect. This would occur to some extent under any conceivable political conditions; and of course it would occur much more if the countries concerned were bad neighbours than if they could be brought to live together as friends. The Commission could in practice work well and with reasonable smoothness only if it were enabled to act as the executant of a broad plan of regional development, negotiated in advance between the countries concerned and forming part of a general system of economic collaboration. Within the framework of a European system made secure against war and designed to promote the common welfare, backed by a common sentiment of fellowship among peoples and Governments and using the services of expert technicians and administrators, a Danube Valley Authority, and similar authorities in other key areas, would appear the most natural thing in the world. In the absence of such a system, or of the will to bring such a system into being, the D.V.A. may not be altogether impracticable, but its capacities are bound to be greatly circumscribed and the obstacles in its path will be formidable in the extreme.

Yet how urgent is the need, in this region and in others, for

concerted measures to develop productivity and so raise standards of living and social security among the peoples! We have seen already in outline[1] how wide is the gulf in standards of life between the more and the less advanced countries even on the European continent—to say nothing of the still wider gulf that separates the wealthier countries from the dense populations of India and China or from the tribal communities of the African continent. The time has now come to examine these differences in somewhat greater detail, as a preliminary to making more precise suggestions about the needs of the world in the field of economic development and about the politico-economic implications which any plan of development is bound to involve.

[1] See Part I, Chapter II.

CHAPTER II

STANDARDS OF DEVELOPMENT IN EUROPE

THERE IS NO FUNDAMENTAL reason why those who live by working on the land, or in rural occupations closely related to land work, should have lower standards of income than those who live in towns and work in industry, or in services such as transport and distribution, which have their centres in towns. Yet the differentiation in standards of life between town and country is of very long standing, and is often taken almost for granted. This is largely because it is much easier to make a fortune by trade than by tilling the soil, and much easier to expand the scale of industrial than of agricultural production, especially where land is scarce; and it is also partly because the wealthier people gravitate towards the towns in search of a more varied way of life and of larger opportunities than they can find in the country, and thus create a demand not only for luxury goods but also for all kinds of professional services, which provide the opportunity for a growth of the middle classes. Moreover, the towns serve the countryside not only as centres for buying and selling, but also as places of resort for entertainment and professional advice; and industries tend to gather together in towns not only because they thus get nearest to valuable markets but also because, wherever an industry is made up of a number of successive processes or related specialities, the complementary firms which make it up find a convenience in being together. Indeed, many modern towns have grown up round the industries located in them by a sort of cumulation. When a nucleus of firms in a particular line of business has settled in a place, it suits others to settle near them, quite apart from any *natural* suitability of the place itself as a centre for the type of production concerned. There may, or may not, have been originally some special reason why firms settled down in this or that place: the mere fact of their being there is often enough to attract others, even if the original reason, where it ever existed, has long lost all its force.

In the earlier stages of urban industrial development, it was on the whole true that the urban workers, or a high proportion of them, were possessed of special skills, learnt by apprenticeship

which could be regarded as entitling them to a superior standard of life. The typical urban workman prior to the advent of the factory system was the craftsman or artisan. Under the so-called 'domestic system,' which prevailed in the more advanced countries before the advent of power production, a large part of the less skilled industrial work was done in the country districts. Indeed, from the end of the Middle Ages industry had been spilling over more and more from the towns to the country; for as long as there was no economic need to gather the workers together in large numbers in factories it was more convenient to put the less skilled work out to cottagers, including women and children, in the country areas than to concentrate it in towns. At first, the change to power-production did not involve concentration of industry in urban centres; for the initial phase of the Industrial Revolution depended on water rather than on steam as a motive force. The first steam engines were pumping-engines, which could be used to raise water for turning water-wheels, but could not be harnessed directly to the machines. Only when James Watt and his successors had perfected the rotatory motion did steam become a direct source of machine-power. During the intermediate phase industry, whenever it desired to produce on a large scale, had to settle where water-power was available; and this prevented concentration and indeed led to a dispersal of factories in remote areas. But as soon as steam-power, based on coal, could be applied directly to turning the factory wheels, the movement was reversed. Industry settled upon the coalfields; and there was no longer anything to hinder the aggregation of factories in a single centre. Often this occurred in areas which had originally attracted industrialists on account of the available water-power. But now such centres were able to grow without being limited by a shortage of sites along river-banks or by the limitations of the accessible water-power. Towns grew rapidly: such places as Bradford in Yorkshire and many of the Lancashire textile towns developed at extraordinary speed out of mere villages. Old towns, such as Manchester, grew at a remarkable rate. The industries which were in process of mechanisation were largely taken away from the countryside. Spinning, for example, which had been mainly a village occupation for the wives and children of the agricultural workers, became a great urban industry. Weaving, which had been carried on largely in industrial villages in the East and West of England as well as in the North, was mainly concentrated in Lancashire and the West Riding; and the handloom weavers were driven out by the machine-operatives who learnt the new trade of power-loom weaving. The metal trades also underwent a process

of concentration as soon as they became less dependent on water as a source of power. The processes of metal manufacture settled upon the coalfields, where iron and other metals were often extracted in conjunction with coal. The finishing trades were gathered together in or near urban centres—the steel tool and cutlery trades in Sheffield, for example, and the light metal trades in Birmingham and the Black Country.

Much as we hear of the intense sufferings of the workers in the new towns and factories, it is certain that, for most of them, wages were higher than for the country workers, who had largely lost the auxiliary earnings which they or their families had drawn from scattered 'domestic' industries, and had been unable to force up agricultural wages in face of the rising costs of living. Of course, the mere fact that earnings were higher does not imply better standards of living. The principal sufferings of the workers in the factory districts were due less to low wages, when work was to be had, than to discontinuity of employment, to almost incredibly long hours of labour under very bad factory conditions, and to revolting houses and sanitary arrangements, or the lack of them, and a nearly complete absence of any provision for recreation or amenity except the gin-shop. Wages were, indeed, very low by modern standards in the more advanced countries; but in this respect the lot of the agricultural labourers was so much worse as to induce a continual migration from the countryside into the towns.

Industrial Development, Past and Future

The purpose of this brief historical disquisition is not that of writing a 'pocket' history of the Industrial Revolution in Great Britain, but rather that of enquiring how far the same conditions are likely to accompany the industrial development of areas hitherto dependent almost exclusively on peasant agriculture, accompanied by small-scale handicrafts carried on in the country as well as in the towns. There are, of course, large differences in the basic economic conditions. Great Britain in the Industrial Revolution was first in the field with large-scale methods of factory production, and secured, in the industries to which the new methods were applied, a long lead in efficiency over other countries. Consequently, the revolutionised British industries produced, from the very outset, for a world market, ousting the older handicraft trades of other countries as well as of Great Britain, and were not much interested in increasing the purchasing power of their own employees, as long as they could look for expanding markets in the rest of the world. The entire emphasis was laid on

cheapness of production, as a means to the conquest and expansion of the world market; and this led to an insistence on low wages—the more so because there was an acute shortage of capital for industrial development, and the capitalist who saw the chance of expanding his sales had largely to depend on his own profits as a source of capital accumulation. This caused him to regard whatever he paid out in wages beyond the barest minimum as so much subtracted from the capital which he could accumulate out of his takings—an attitude which largely accounts for the intensity of the struggles between the classes of employers and employed in Great Britain during the first half of the nineteenth century.

Industrialisation in backward countries is bound nowadays to follow a different course. Under the conditions which have existed hitherto it has often centred round the exploitation by foreign concerns, or with foreign participation, of mineral resources destined to be worked up into finished products, or even into semi-manufactures, in the plants and refineries of the more advanced countries. The foreign investors, or those who control the investment, have in such cases very often no desire to develop manufactures in the backward country. They want the processing of its valuable materials to be reserved as far as possible for themselves. When manufacturing industries are developed under foreign auspices, they are often limited to assembly or to the working up to a final stage of materials largely processed in the more advanced countries. Development of this kind is often stimulated by tariffs designed to give a preference to home manufacturers; for such tariffs usually protect the foreign capitalist who sets up a finishing factory within the tariff frontier and often allow him to carry on a large part of the manufacture in his own country, provided only that he finishes and assembles the product in the country which has set up the protective wall. No doubt, there are also cases in which capitalist groups set up manufactures in the less advanced countries in order to get the benefit of cheap labour; but such instances are relatively few, except where there is a tariff inducement as well, or an obviously large economy in working up materials to an advanced stage of production where they are found.

In most cases the advantage of low-paid labour, even if it can be obtained, will not enable a backward country to compete on equal terms with more advanced countries in branches of manufacture which demand at all a high degree of skill from any considerable proportion of the workers employed in them. This applies everywhere; but the smaller countries are under an additional handicap because of the limitations of their home

markets and the tariffs which usually obstruct the export of goods to their immediate neighbours. The manufactures which call for relatively little skill are in a good many instances those which require to be carried on upon a considerable scale and with the most expensive capital equipment. Native capitalists in most cases lack the resources for such development; and foreign capitalists are seldom willing to undertake or assist it. A huge country, such as India, has been able to develop an extensive textile industry based on modern machinery because of the vast size of its internal market—vast despite the very low living standards of the Indian peoples—and also because of the presence of considerable accumulations of wealth in the hands of native capitalists. It by no means follows that such countries as Bulgaria and Yugoslavia can develop comparable industries by the same methods—much less that this can be done in the desperately backward colonial territories of Africa.

Of course, if there were no tariffs or import restrictions to obstruct the movement of goods across the frontiers of neighbouring backward States, the enlargement of markets would make it practicable to plan for production on a bigger scale. But, as against this, the throwing down of all restrictions would mean that the manufactures of the less advanced countries would have to compete in cheapness with those of the advanced countries; and their ability to do this at the outset, even with the aid of cheap labour, is questionable. Moreover, the necessity of such competition would be a powerful influence in keeping down wages, whereas the successful development of manufacturing industries is bound to depend on a rising standard of consumption in the backward countries. This raises questions about the relative positions of peasants and urban workers. It is true enough that a rise in peasant standards of living might create the requisite home market even if the industrial workers were very badly paid, and also that the peasants need really cheap supplies of industrial goods. But it is no less true that peasant standards cannot be raised without an improvement in the home market for agricultural produce, especially milk, vegetables, fruit and eggs, and that a higher urban standard of living is indispensable for providing this outlet. The peasants of the backward countries will never grow rich by depending mainly on crops for export to the richer countries; for this involves direct competition with the better-placed producers of the prairie countries, where land is plentiful and mechanised production can be easily applied. No remedy for the poverty of the backward countries can be availing unless it is directed to improving simultaneously both rural and urban living

standards, by promoting the internal exchange of goods between the country and the town. Or rather, no remedy can be really successful unless it is based on linking together groups of neighbouring backward countries into 'open door' regions within which the exchange of agricultural and industrial products can be carried on without artificial obstruction.

The Case for Regional Groups

This, it will be seen, implies a grouping of the backward countries into economic regions working on the basis of common plans, so as to take advantage of the suitabilities of different areas for different types of production and to enable industrial development to be shared out in such a way that there will be a large enough market to make it practicable to produce each commodity on an economic scale. Round these regions as wholes there will have to be, for some time at any rate, either tariff frontiers or other instruments for regulating the volume of imports; for otherwise it will be impossible for the manufacturing industries which it is desired to develop to get a start in face of the competition of the more advanced countries. The new manufactures cannot in most cases possibly be as efficient at the outset as those of the advanced countries; and, even if they were, there would be under capitalist conditions the risk of concerted dumping—sale at specially low prices—deliberately designed to prevent the new manufactures of the backward countries from taking firm root. If we really want to see the backward countries raise their standards of living and relieve the pressure of their populations upon the land, we must recognise that this cannot be done under a régime of universal free trade. It implies some sort of protection for the nascent manufacturing industries of the less developed countries. But this protection will only defeat its own end, by protecting unduly high costs of production, unless the backward countries throw down the tariff frontiers which isolate them one from another and group themselves in economic regions large enough to allow specialisation and to provide their industries with markets wide enough for a fully efficient scale of production.

Degrees of Industrial Development

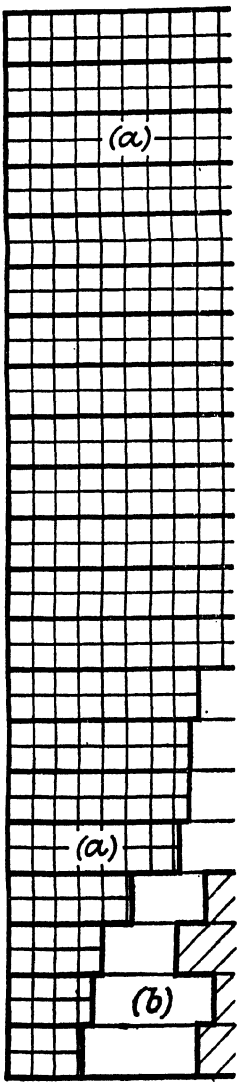
What are the conclusions which can be drawn from this argument about the future regional organisation of Europe in the economic field?

There are very wide differences in the degree of industrialisation in the countries of Europe to-day—to say nothing of differences between areas which form parts of the same State. In

DEGREE OF INDUSTRIAL DEVELOPMENT

PERCENTAGE OF OCCUPIED POPULATION ENGAGED IN (a) INDUSTRY, MINING

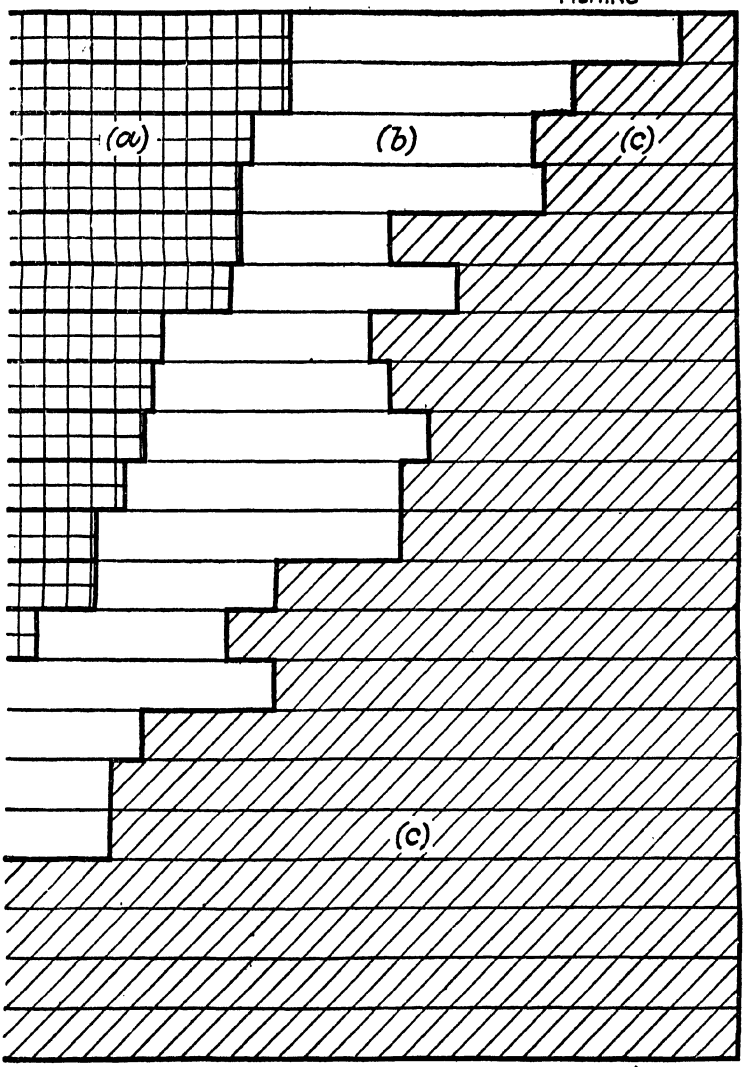
		(a)	(b)	(c)
A. HIGHLY INDUSTRIALISED	1. GREAT BRITAIN (1931)	53	41	6
	2. BELGIUM (1930)	53	30	17
	3. SWITZERLAND (1930)	49	30	21
	4. HOLLAND (1930)	48	32	20
	5. SWEDEN (1930)	48	16	36
	6. GERMANY (1933)	47	24	29
B. SEMI-INDUSTRIALISED	7. CZECHOSLOVAKIA (1930)	40	22	38
	8. FRANCE (1931)	39	25	36
	9. AUSTRIA (1934)	38	30	32
	10. NORWAY (1930)	36	29	35
	11. DENMARK (1930)	33	32	35
	12. ITALY (1936)	33	19	48
C. LARGELY AGRICULTURAL	13. HUNGARY (1930)	27	20	53
	14. EIRE (1936)	20	32	48
	15. GREECE (1928)	19	19	62
	16. POLAND (1931)	19	16	65
	17. FINLAND (1930)	18	17	65
D. AGRICULTURAL	18. YUGOSLAVIA (1931)	13	8	79
	19. TURKEY (1935)	10	8	82
	20. ROUMANIA (1930)	9	13	78
	21. BULGARIA (1934)	8	12	80



APPROXIMATE PROPORTIONS

IN TWENTY-ONE EUROPEAN COUNTRIES

AND TRANSPORT (b) ALL OTHER OCCUPATIONS (c) AGRICULTURE, FORESTRY AND FISHING



BASED ON NATIONAL STATISTICS WHICH ARE NOT ON A UNIFORM BASIS. NO FIGURES AVAILABLE FOR SPAIN OR PORTUGAL

assessing these differences, it is necessary to go back to pre-war figures and even, for lack of later information, to data which were already somewhat out of date in 1939. The following Table attempts to arrange the countries in order of industrial development, by taking from the national statistics the proportion of the total occupied population recorded as engaged on the one hand in industry, mining and transport and on the other in agriculture and fishing, the remainder of those occupied being grouped together in a single miscellaneous category. The figures have many defects. The various national classifications are not uniform; and there are in particular difficulties over the demarcation between agricultural workers and domestic farm workers, over the inclusion or exclusion of wives and children of farmers and peasants as 'occupied persons,' and over the inclusion of handicraft workers with those engaged in larger-scale industry. But for

EXTENT OF INDUSTRIALISATION IN TWENTY-ONE EUROPEAN COUNTRIES

	Year	Percentage of occupied population engaged in Industry, mining and transport	Agriculture, fishing and forestry	All other occupations
A. Highly Industrialised				
1. Great Britain	1931	53	6	41
2. Belgium	1930	53	17	30
3. Switzerland	1930	49	21	30
4. Holland	1930	48	20	32
5. Sweden	1930	48	36	16
6. Germany	1933	47	29	24
B. Semi-industrialised				
7. Czechoslovakia	1930	40	38	22
8. France	1931	39	36	25
9. Austria	1934	38	32	30
10. Norway	1930	36	35	29
11. Denmark	1930	33	35	32
12. Italy	1936	33	48	19
C. Largely Agricultural				
13. Hungary	1930	27	53	20
14. Eire	1936	20	48	32
15. Greece	1928	19	62	19
16. Poland	1931	19	65	16
17. Finland	1930	18	65	17
D. Agricultural				
18. Yugoslavia	1931	13	79	8
19. Turkey	1935	10	82	8
20. Roumania	1930	9	78	13
21. Bulgaria	1934	8	80	12

Approximate figures based on national statistics which are not on uniform basis. No figures are available for Spain or Portugal or Albania.

getting a broad view of the situation these inaccuracies and ambiguities do not greatly matter.

It will be seen that the proportion of all occupied workers engaged in the 'industrial' group (including mines and transport) ranged from 53 per cent. in Great Britain to only 8 per cent. in Bulgaria, whereas the proportion in agriculture and fishing ranges from 82 per cent. in Turkey and 80 per cent. in Bulgaria to a mere 6 per cent. in Great Britain. No less significant is the difference in the miscellaneous group, which ranges from 41 per cent. in Great Britain to 8 per cent. in Turkey and Yugoslavia. The largest elements in this group are, on the one hand, commerce, distribution and professional services, and on the other domestic and personal service; and these are both much more prominent in wealthy than in poor countries. This can be seen clearly if the figures are further broken up. Here, for example, is the occupational distribution within the miscellaneous group for a few countries drawn from different positions in the main Table.

OCCUPATIONAL DISTRIBUTION IN COMMERCE, PUBLIC ADMINISTRATION AND PROFESSIONS AND PERSONAL SERVICES FOR CERTAIN EUROPEAN COUNTRIES

(*Per cent. of all occupied persons*)

	Commerce and distribution	*Public administration, forces and professions*	*Personal services*	*Miscellaneous and unclassified*
Great Britain (1931)	15·8	11·8	12·6	0·9
Switzerland (1930)	14·7	5·3	7·2	2·2
Holland (1930)	14·0	8·6	7·6	1·0
France (1931)	12·5	9·1	4·1	—
Denmark (1930)	12·3	6·1	12·1	1·3
Austria (1934)	12·0	8·4	6·9	3·0
Sweden (1930)	11·1	6·4	7·2	0·7
Italy (1936)	8·7	6·3	3·6	—
Czechoslovakia (1930)	8·2	7·3	4·4	1·5
Eire (1936)	7·8	7·3	9·6	6·6
Hungary (1930)	5·9	6·2	4·6	3·2
Poland (1931)	5·4	4·2	2·8	3·5
Roumania (1930)	3·2	5·6	—	4·1
Yugoslavia (1931)	2·6	4·7	—	1·3
Bulgaria (1934)	2·4	3·4	2·5	2·5

In this Table, the column which groups together Public Administration, the Professions, and the Armed Forces is of little significance for our present purpose. What plainly appears is that in the wealthier countries the relative numbers occupied in both Commerce and Personal Services increase very sharply. There are no figures showing the numbers in Personal Services in Roumaina or Yugoslavia, where they cannot easily be separated from farm workers; but the numbers engaged in such services except on

farms are undoubtedly small. Personal Service of course includes workers in hotels, restaurants, and other institutions as well as private domestic servants.

Returning to the main Table and the accompanying Diagram, we may note that the countries have been assigned to four groups, according to their degree of industrialisation. The most highly industrialised countries are Great Britain, Belgium, Switzerland and Holland; but the last three have all more than three times as high a proportion of agricultural workers as Great Britain, which in this respect stands quite alone. Sweden and Germany are less industrialised than the first four, and have substantially larger proportions of their occupied populations on the land. Sweden is notable for the small proportion engaged in service occupations—a clear sign of the less unequal distribution of incomes.

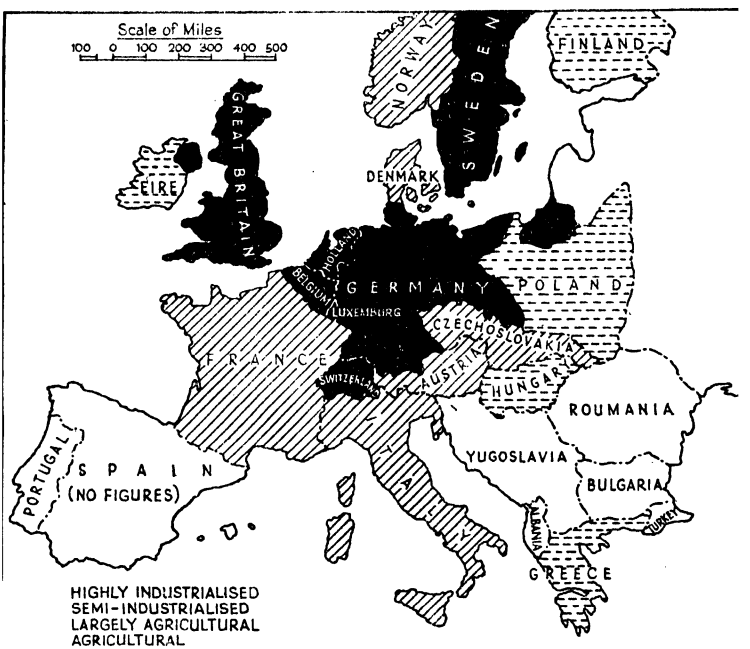
To the second group are assigned six countries. In five of them there is a rough balance between industry and agriculture, whereas Italy has a considerably higher proportion of agricultural workers and a much smaller proportion than the others in service occupations. There is, of course, a sharp contrast here between the relatively industrialised north of Italy and the almost purely agricultural south, where very primitive conditions still exist. Austria presents a contrast between highly industrialised Vienna —the former capital of the Empire of Austria-Hungary—and a mainly agricultural 'rest.' Norway has large timber-working industries on the one hand and a large fishing and merchant fleet on the other. Denmark is marked out by the high standard of its agriculture, which is in effect 'industrialised,' so that its agricultural population enjoys a relatively high standard of life. France and Czechoslovakia are (or were) neatly balanced, with a wide diversity of both industrial and agricultural production.

In the third group are five countries, all mainly agricultural, but distinctly more industrialised than the fourth group. They are very diverse. Eire stands apart because of its high proportion engaged in service occupations or unclassified—and here the statistics may be at fault, but the old connection with Great Britain has probably something to do with the high proportion of 9·6 per cent. in Personal Service. Hungary and Poland both have patches of developed industry set in the midst of large agricultural areas. Poland inherited part of the Silesian coalfield after the first World War: Hungary's industry is largely concentrated in the old imperial second capital, Buda-Pesth. Greece has been driven to seafaring and trading by the poverty of much of its soil. Finland resembles the other Scandinavian countries, but is much less industrialised.

Finally, we come to four countries in which approximately four-fifths of the total occupied population is engaged in agriculture. Yugoslavia has a slightly higher proportion in industry than the others, because of mining development. Roumania's oil wells do not employ many workers. Turkey has developed industries in recent years as part of its national plan; but they have not advanced far enough to have much effect on the occupational structure. Bulgaria, somewhat ahead of the others in agricultural techniques, is least industrially developed of all.[1]

The Economic Map of Europe

The highly industrialised areas of Europe, excluding the Soviet Union, consist of Great Britain, Southern Sweden, and a great



EUROPE SHOWING EXTENT OF INDUSTRIALISATION, BY COUNTRIES, 1937
(*Pre-war Frontiers*)

block of territory in Western and Central Europe comprising Belgium and Luxemburg, Holland, Germany and Switzerland.

[1] It should, of course, be borne in mind that all these figures relate to the pre-1939 territories of the States concerned.

Adjacent to this central block lie the industrialised areas of Austria, Czechoslovakia and Poland, which the Nazis attempted to incorporate in Germany, the industrial areas of Northern Italy, some of the most industrialised parts of France, including the Lille-Calais region and Lorraine, and also Denmark, which belongs to the semi-industrialised group. Great Britain lies just beyond the narrow seas. On the Map on page 683, the area coloured black exaggerates the size of the industrialised zone. Cut off from it most of Scotland, most of Sweden, and East Prussia, and you get a fairer picture of the space into which is concentrated a very high proportion of the developed industrial production of Europe.

To the south of this industrialised area lie the largely agricultural regions of France and Italy—France and Northern Italy relatively advanced, Southern Italy and Sicily very backward in their agricultural techniques. Spain, except its fertile valleys on the sea coast, resembles Southern Italy in backwardness, and is even worse ridden by a landlordism that does nothing to improve the land or even to maintain its fertility. To the east of the industrialised area lie the plains of Poland and Hungary, parted by the Carpathian region which was part of Czechoslovakia, but has now been transferred to the Soviet Union. Poland (excluding areas recently annexed) and Hungary are both predominantly agricultural, but not without important industries, whereas further south lies the great peasant region which embraces Roumania, Yugoslavia, Albania, Bulgaria, Turkey and Northern Greece. Finally, in the far north, the Scandinavian countries, including Finland, form a group differing in degree of industrial development but diversified and naturally fitted in many respects to act together, not on a basis of self-sufficiency, but by cultivating close common relations in their commerce both one with another and collectively with the outside world.

It will be obvious from a casual glance at the Map that industrialised Germany occupies a key position in relation to the trade of the mainly agricultural countries of Eastern and South-eastern Europe. In 1938 Germany sent roughly a quarter of its total exports to, and received roughly a quarter of its total imports from, the mainly agricultural countries of continental Europe. The Nazis had, of course, sedulously pushed this trade in the endeavour to build up a complementary system between the industrial area which they aimed at including in Greater Germany and the regions which were to serve them as sources of agricultural, and in some cases mineral, supplies. But the Nazis did not invent, though they intensified, the policy of exchanges

between Germany as a source of industrial products and South-eastern and Eastern Europe as a source of agricultural supplies. Great Britain, by contrast, had only a quite small trade with most of the countries lying to the south and east of Germany. Greece was an exception; but for the most part British trade connections were elsewhere—with the Dominions and India, the United States and Argentina, and, in Europe, with Scandinavia, France, and Germany itself. British industry supplied little to the agricultural zone of Europe, partly because most British products were too dear (and of too high quality) for the very poor consumers of this area, but also partly because British importers bought little from the area, so that there would have been great difficulties in the way of financing extensive purchases from British industry. The Germans, on the other hand, had set out, long before the advent of the Nazis, both to produce goods marketable in the peasant countries and to supply credits for financing their purchase; and the ingenious, and often semi-fraudulent, exchange controls and barter arrangements associated with the name of Dr. Schacht were only methods of extending and adapting to Nazi aims an earlier trend of German industry.

Lines of Development for the Backward Areas

If now these peasant countries are to set out to supply more of their own needs for manufactured goods they must, in order to stand a chance of producing efficiently, work together. Their best chance lies, as we have seen, in developing the production of goods which require considerable amounts of labour—for they have man-power in plenty—but only small proportions of highly skilled workers in the total labour force. Textile goods, processed foodstuffs, small metal goods, furniture and other woodwork, pottery and other household requisites, are obvious examples. Boots and shoes offer rather more difficulty, as needing either more skilled labour or more costly machine equipment; but the difficulty could be overcome by careful selection of types. Bicycles—a much needed commodity in the agricultural areas—can also be mass-produced with only a small proportion of skilled workers; and there is obviously a wide field for the standardised production of agricultural implements. If, however, each country sets out to produce for itself over the whole of this wide range, costs are bound to be high; whereas, if they can agree to pool their resources and to share out the field among themselves, there is no reason why they should not be in a position to produce at reasonable prices the simple, utility articles for which a large market can be most easily brought into being.

It should be emphasised again that this is not mainly a matter of displacing imports. It is a matter of raising standards of living so that total consumption of industrial products is rapidly increased. Naturally, in the process, some imports will be displaced—particularly imports formerly derived from Germany, where the industrial structure has undergone such immense damage. But even if, as a consequence of industrial development, these countries import from the rest of the world (excluding their trade among themselves) fewer of some products, their total imports will assuredly not fall off, but will only change their character. Industrial development implies for them a large importation of capital goods; and the improvement of their agricultural techniques and of their transport systems will also involve large demands for imports. The aim of industrialisation is not to promote *autarkie*, even on a regional basis, but to add to total supplies, which have hitherto been woefully short.

Standards of Consumption in Europe

How poor in supplies most of these countries are I have attempted to show earlier in terms of the differences in national income per head of population between them and the more advanced countries.[1] There is no direct way of measuring their poverty in terms of consumption of industrial products, or even of measuring at all the consumption of peasants who depend largely on eating the produce of their own holdings. But we can get some idea of the low consumption standards which have prevailed hitherto by citing the results of enquiries made by the International Labour Office into the consumption of food by urban workers in various parts of the world. These enquiries are based for the most part on fairly small samples; but there is no reason to doubt their substantial correctness. They relate to annual consumption of the main foodstuffs by representative working-class households in the countries concerned, expressed in terms of consumption per adult male—women and children being counted as fractions of a 'standard male.' I have re-expressed the results, for the sake of simplicity, as percentages for each country of the consumption of each group of commodities of the consumption of the European country which stands at the head of the list. The Table on pp. 687–8 shows the results for each of twelve groups of commodities and for as many European countries as I can find data to cover. A few non-European countries are added for purposes of comparison.

[1] See pp. 55ff.

This Table brings out some interesting facts. In milk consumption, the leading countries in order are Finland, Switzerland, Sweden, (Argentine), Norway, and Holland. Great Britain is near the bottom of the list, with only Poland and Bulgaria (and Chile) below it. Denmark is surprisingly low. In butter and oils and fats, taken together as a single group, the leading countries are Denmark, Norway, Belgium, Holland and Sweden—all well ahead of all the non-European countries included in the list. Great Britain here makes a better showing, but is only seventh among the European countries, though just ahead of the United States. In meat consumption (including fish) the leading European countries are Norway, Sweden, Denmark, Belgium and Austria, with Great Britain again a long way down, only just ahead of Germany. In sugar consumption, on the other hand, Great Britain heads the European list, followed by Sweden, Denmark, Switzerland and Finland. In fruit and vegetables, other than potatoes, a different grouping occurs. The five leaders in this case are Switzerland, Holland, Austria, Hungary and Czechoslovakia, with Great Britain, despite heavy imports of tropical fruits, again near the bottom. In eggs Great Britain leads, followed by Sweden, Denmark, Belgium and Austria.

RELATIVE CONSUMPTION OF FOOD AMONG INDUSTRIAL WORKERS IN CERTAIN COUNTRIES BEFORE 1939

	(1) *Milk and cream*	(2) *Butter*	(3) *Margarine*	(4) *Other oils and fats*	(5) *Cheese*	(6) *Eggs (number)*	(7) *Meat and fish*	(8) *Sugar*	(9) *Tea, coffee and cocoa*
Sweden	77	68	48	5	79	97	73	94	41
Norway	64	15	100	4	100	59	100	63	47
Belgium	43	100	19	31	62	78	64	53	100
Great Britain	33	82	22	22	65	100	52	100	36
Denmark	33	55	71	15	66	93	65	77	43
Holland	59	28	39	55	64	67	42	58	29
Switzerland	78	37	—	50	70	59	33	67	36
Austria	48	22	11	100	37	78	57	56	41
Finland	100	84	18	6	13	25	55	65	39
Czechoslovakia	46	22	12	72	43	69	43	65	42
Germany	33	33	34	30	52	31	45	41	27
Hungary	34	5	—	87	2	33	31	48	20
Bulgaria	9	3	—	53	72	29	41	25	6
Poland	25	19	2	16	21	23	55	46	12
Australia	53	113	2	11	27	105	102	101	22
U.S.A.	46	68	—	61	51	133	85	79	47
Argentine	74	?	—	116	53	52	161	69	59
Canada	53	106	—	32	24	89	66	89	29
South Africa	39	74	—	—	35	82	70	128	37
Mexico	38	68	—	3	20	42	55	61	42
Chile	9	3	—	—	5	7	60	60	29

RELATIVE CONSUMPTION OF FOOD AMONG INDUSTRIAL WORKERS IN CERTAIN COUNTRIES BEFORE 1939—*continued*

	(10) *Fruit and vegetables, except potatoes*	(11) *Potatoes*	(12) *Cereals*	(13) *3+4. All oils and fats except Butter*	(14) *2+3+4 Butter and oils and fats*	(15) *2+3+4 +5. All milk products and oils and fats*	(16) *1+2+3 +4+5. Milk cream, milk products, oils and fats*	(17) *11+12 Cereals and potatoes*
Sweden	46	52	41	50	83	85	99	53
Norway	28	42	54	100	95	100	100	56
Belgium	54	100	75	40	93	89	80	100
Great Britain	23	49	50	37	79	79	68	57
Denmark	7	42	40	79	100	96	79	47
Holland	97	77	62	76	82	81	85	79
Switzerland	100	31	41	34	51	57	82	42
Austria	86	26	50	80	82	75	75	45
Finland	1	52	48	22	68	58	96	57
Czechoslovakia	61	46	56	62	66	63	66	59
Germany	46	72	48	54	66	66	60	67
Hungary	76	33	61	60	54	45	48	56
Bulgaria	97	9	100	37	33	44	32	69
Poland	55	92	78	13	22	23	29	96
Australia	165	28	52	9	74	66	73	48
U.S.A.	154	40	44	42	76	73	73	49
Argentine	15	34	77	80	69	68	87	65
Canada	73	40	34	22	81	71	76	42
South Africa	?	28	54	?	43	43	50	49
Mexico	98	5	115	2	41	38	46	77
Chile	73	40	52	—	2	3	7	54

Compiled from data given in the I.L.O. *Year-Book of Labour Statistics*. See note to Table on p. 690.

Let us now reverse the process, and start from the bottom end. The countries with the lowest milk consumption, starting with the lowest of all, are Poland, Finland, Bulgaria, Germany and Hungary. In butter and oils and fats the lowest are Poland, Bulgaria, Switzerland, Hungary and Czechoslovakia, with Germany coming next. In meat and fish, the list begins with Hungary, followed by Switzerland, Bulgaria, Holland and Czechoslovakia, Germany again coming next in the ascending order. In sugar, the worst showing is made by Bulgaria, followed by Germany, Poland, Hungary and Belgium. In fruit and vegetables, the lowest consumption is shown by Finland, Denmark, Bulgaria, Great Britain and Norway; and in eggs by Poland, Finland, Bulgaria, Germany and Hungary.

Turn next to the columns which show the consumption of cereals and potatoes—the starchy foods which supply energy, but little besides. Here the highest consumption per head is shown by

Belgium, followed nearly by Poland, at some distance by Holland, and at a greater distance by Bulgaria and Germany. The lowest consumption of cereals is shown by Switzerland, and next at this end of the list come, in order, Austria, Denmark, Sweden and Norway, followed by Great Britain. The Bulgarians, who have the highest consumption of cereals, eat hardly any potatoes: the Belgians and the Poles are large consumers of both.

A Rough Measure of Food Standards

There is obviously no easy scientific way of evaluating these varying diets in terms of a common standard of nutritional merit: nor, if there were, am I at all equipped for such a task. But sometimes an unscientific method will serve nearly as well, if the object is to convey only a very generalised conclusion. There are many ways of making up a satisfactory diet; and what is best depends on climatic and local productive conditions as well as on personal or national tastes. The Germans, for example, supplement their otherwise deficient supply of fats by eating fat meat. The Norwegians eat very little butter, but a great deal of margarine made of whale oil: the Finns are great consumers of milk and butter, but eat hardly any fruit or vegetables, except potatoes. The Austrians take very little butter or margarine, but a great deal of oil—and so on.

The unscientific, but I believe informative, way here chosen of evaluating the various national diets in terms of a common standard is that of taking, first, four alternative standards of varying degrees of inclusiveness, and then of averaging them all, so as to arrive at a broadly correct conclusion. The reader who does not like this rough and ready method is at liberty either to take instead one of the four standards which I have used in arriving at my conclusions, or to calculate an alternative standard on any basis he pleases. I have no doubt that Standard E, in the Table on the page 690, does give a roughly correct picture of pre-war urban food standards in the countries of Europe, not from a strict dietician's point of view, but including the factor of enjoyment as well as that of nutritional adequacy.

The available information leaves us in no doubt that Sweden was the best-fed country in Europe, or that the Scandinavian countries, as a group, had an exceedingly high standard. Belgium, on almost any reckoning, comes out surprisingly high, in relation to the level of wages and of national income per head. Germany, on the other hand, stood very low, ahead only of the three countries which appear in the Table as representatives of Eastern and South-eastern Europe. There are no usable figures

Food Consumption among Industrial Workers in Certain Countries before 1939

Standard A — *Average of indices for (a) milk, (b) milk products and oils and fats, (c) meat and fish, (d) sugar* (1)		*Standard B* — *Average of indices for (a) milk, (b) butter, (c) cheese, (d) oils and fats, (e) meat and fish, (f) sugar, (g) eggs* (2)		*Standard C* — *As B, but including also (h) fruit and vegetables, except potatoes, and (i) tea, coffee and cocoa* (3)		*Standard D* — *As C, but including also (j) potatoes and (k) cereals* (4)		*Standard E* — *Average of Standards A to D* (5)	
1. Sweden	**100**	**Sweden**	**100**	**Sweden**	**100**	Belgium	**107**	**Sweden**	**100**
2. Norway	99	Norway	93	Belgium	95	**Sweden**	**100**	Norway	95
3. Finland	84	Denmark	87	Norway	92	Norway	94	Belgium	90
4. Denmark	82	Great Britain	87	Great Britain	84	Holland	92	Great Britain	85
5. Great Britain	80	Belgium	82	Denmark	83	Great Britain	87	Denmark	84
6. Belgium	76	Holland	73	Holland	83	Denmark	84	Holland	80
7. Holland	73	Switzerland	70	Switzerland	82	Switzerland	82	Switzerland	76
8. Austria	72	Austria	70	Austria	81	Austria	81	Austria	76
9. Switzerland	71	Finland	68	Czechoslovakia	72	Czechoslovakia	77	Finland	72
10. Czechoslovakia	66	Czechoslovakia	65	Finland	65	Finland	69	Czechoslovakia	70
11. Germany	56	Germany	54	Germany	58	Germany	67	Germany	59
12. Hungary	48	Hungary	40	Bulgaria	51	Poland	61	Hungary	48
13. Poland	45	Bulgaria	40	Hungary	49	Bulgaria	60	Bulgaria	47
14. Bulgaria	36	Poland	34	Poland	43	Hungary	56	Poland	47
1. Argentine	113	Australia	95	U.S.A.	113	U.S.A.	110	Australia	103
2. Australia	98	U.S.A.	94	Australia	112	Australia	108	U.S.A.	101
3. U.S.A.	86	Argentine	91	Argentine	90	Argentine	94	Argentine	97
4. South Africa	85	Canada	83	Canada	88	Canada	87	Canada	86
5. Canada	85	South Africa	80	South Africa	74[1]	South Africa	76[1]	South Africa	79[1]
6. Mexico	58	Mexico	53	Mexico	68	Mexico	76	Mexico	64
7. Chile	40	Chile	27	Chile	39	Chile	47	Chile	39

This Table is compiled from data given in the I.L.O. *Year-Book of Labour Statistics*, 1941 and 1942. In some cases the basis for the figures is narrow, and they should be taken as giving only a very rough approximation. The original data are for various years, and are given in quantities consumed per standard (adult male) unit of consumption. They have been converted into index numbers, taking consumption in Sweden as 100 in all cases.

[1] South Africa. Excluding fruit and vegetables, for which there are no data.

for Roumania or Yugoslavia; but it can be taken as certain that their position was close to that of Poland and Bulgaria, at the bottom of the list. France and Italy are other countries for which no statistics are available.

Productivity, Industrialisation and Consumption

We may now try to see how these estimates of food consumption compare with the estimates of Colin Clark, quoted earlier in this work, of the national productivity per head of occupied population in the various countries, and also with the degree of industrialisation, measured by the proportions of occupied workers engaged in industry, mining and transport. The comparison is set out in the Table on p. 692.

This comparison brings out certain points very clearly. On any showing, Bulgaria, Yugoslavia and Roumania were at the bottom of the list, with Poland very near them and actually below Bulgaria in terms of urban consumption of food. Hungary was but little ahead. At the other end, Great Britain, Belgium, Holland, Denmark, Switzerland and Sweden stand clearly marked out as the most prosperous countries. A large agricultural industry is fully compatible with high standards of living if it is conducted on scientific lines, as in Denmark and Sweden, provided that there is no pressure of excess population on the land. It appears probable that Colin Clark's estimates underrate the productivity of Belgium and Italy, and also perhaps of Finland and Norway, on account of undervaluation of high-grade agricultural products. The position of Germany, which reflects conditions before the Nazi policy of full employment in preparation for war had taken effect, is probably put too low in terms of food consumption, and perhaps of productivity as well. But in general the close relation between industrial development and high productivity per head comes out clearly, and also the coincidence between these things and large employment in service occupations.

Productivity per Occupied Person, Industrial Development, and Food Consumption of Urban Workers in European Countries

(The columns follow the order as given in previous Tables. They are expressed as percentages of the leading country's figure.)

Productivity per head (Colin Clark)		*Degree of industrialisation*		*Proportion occupied in agriculture and fishing (inverted)*		*Proportion of occupied in service occupations*		*Food consumption per head*	
Great Britain	100	Great Britain	100	Great Britain	7	Great Britain	100	Sweden	100
Switzerland	95	Belgium	100	Belgium	21	Denmark	78	Norway	95
Holland	80	Switzerland	92	Holland	25	Holland	78	Belgium	90
France	64	Holland	91	Switzerland	26	Belgium	73	Great Britain	85
Denmark	64	Sweden	91	Germany	36	Switzerland	73	Denmark	84
Sweden	61	Germany	89			Austria	73	Holland	80
Germany	60	Czechoslovakia	75	Austria	40	Norway	71	Switzerland	76
Belgium	56	France	74	Denmark	44	France	61	Austria	76
Norway	50	Austria	72	Norway	44	Germany	59	Finland	72
Austria	48	Norway	68	Sweden	45	Czechoslovakia	54	Czechoslovakia	70
				France	45				
Czechoslovakia	43	Denmark	62	Czechoslovakia	47	Hungary	49	—	
Greece	37	Italy	62	Italy	60	Italy	46	—	
Finland	36	Hungary	51	Hungary	66	Greece	46	Germany	59
Hungary	34	Greece	36	Greece	77	Finland	42	—	
Poland	33	Poland	36	Finland	81	Sweden	39	—	
Italy	32	Finland	34	Poland	81	Poland	39	—	
Yugoslavia	31	Yugoslavia	25	Roumania	97	Roumania	32	Hungary	48
Bulgaria	24	Roumania	17	Yugoslavia	99	Bulgaria	29	Bulgaria	47
Roumania	23	Bulgaria	15	Bulgaria	100	Yugoslavia	20	Poland	47

CHAPTER III

THE OBSTACLES TO WORLD COLLABORATION

IN THE PRECEDING CHAPTERS, I have been attempting to envisage the problems of world development and of raising standards of living for the peoples of the world purely as *technical* problems—in terms, that is to say, of the resources available for their solution and of the best technical methods of improving the use of these resources, quite apart from systems of government or the balance of political forces. That is, of course, how the engineer naturally looks at the problem, when he is studying it as an engineer, or the economist, when he is studying it as an economist. The problem, looked at in either of these ways, is simply one of increasing the material well-being of hundreds of millions of men, women and children who, in spite of all the vast advances made by applied science during the past two centuries, are still living in desperate poverty. It is, from the scientific standpoint of either engineering or economics, a problem of immense waste of potential productive capacity, resulting in standards of life absurdly out of relation to a level of scientific and economic knowledge that ought to be at the command of every people. Most of this knowledge is public property, in the sense that there is nothing to prevent anyone capable of understanding it from making it his own. There are no doubt parts of it, among the most recent of men's scientific acquisitions, that are still the possession of particular discoverers, or of companies protected by patent rights or armed with trade secrets, or of Governments—as in the outstanding case of the secrecy over the methods of applying atomic energy. But these monopolised sectors of the field of human knowledge as applied, or as applicable, to the arts of production cover only a small part of the whole, and in no way help to explain the immense differences in productivity between different peoples. Without one single discovery or technique that is made unavailable by secrecy or by monopoly rights, the peoples of the more backward countries could be living at an immensely higher standard than they actually are if they had but the means of applying a knowledge which is in theory as fully open to them as to the Americans or to ourselves.

Why the Backward Peoples Stay Backward

The backward peoples, however, are not practically in a position to apply, or even to acquire, this knowledge, unless positive steps are taken both to bring the knowledge within their reach and to help them in applying it. They are too poor to have the means of making themselves richer, however open, in theory, the road to economic achievement may be. The peasant cannot cultivate the land better, not only because he cannot afford to learn improved methods, but also because, even if he could afford to do so, he could not afford to acquire the tools without the aid of which his knowledge could not be applied. The industrial *entrepreneur* cannot afford to introduce more up-to-date methods of production, save here and there, not only because he does not know how, but also because he would have to compete with even more advanced methods, based on a larger market and a higher specialisation than he can hope to command at first, and aided by a more skilled and factory-conditioned labour force than he can hope to enlist. Even if he can succeed in raising productive efficiency substantially above the level previously existing in his own country, he will find himself in competition with still more efficient producers in the more advanced countries, and will be able to survive only if he is given a protection against imports. But this protection, in the forms in which it has been given hitherto, has had the effect of raising the prices of industrial goods to the poor consumers of the backward countries, and has thus restricted instead of expanding the total market. The backward countries have been caught in a vicious circle; and the practical consequence has been that next to nothing has been done towards generalising over the whole world the advances made in the arts of production, despite the theoretical accessibility of most scientific and technical knowledge to anyone who may choose to make use of it.

These are the *economic* obstacles to the realisation of the engineers' or the economists' blue-prints for raising standards of living throughout the world to a level corresponding to the present level of *international* scientific and technical competence—the word 'international' here meaning not limited to any particular nation rather than in practice possessed in common by all. But there are, of course, over and above these economic obstacles other obstacles, primarily political, of which we have hitherto taken no account. The engineer or the economist, considering his problem purely from the standpoint of his own technique, asks what needs to be done and how, from the technical or economic standpoint, it can best be done: he does not ask, or at all events he

is not professionally equipped to lay down, how the human obstacles, to the extent that they are neither technical nor strictly economic, are to be overcome. For example, the economist can say that, for the raising of life-standards in Eastern Europe, or in India or China, it is clearly necessary to relieve the pressure of peasant population on the land by developing large-scale forms of non-agricultural employment, and that for this purpose a large investment of capital will be required. He can go on to point out that this capital will need to be applied in a balanced way, partly to the improvement of the conditions of agriculture itself—by land drainage, irrigation, and the provision of better tools and implements and of power usable on farms—partly to the development of transport and of marketing and storage facilities, and partly to the growth of industries and services directly for the satisfaction of consumers' needs and desires. The engineer, given such an economist's programme to work upon, will be able to say that drainage, irrigation, the development of electrical power, the building of roads and railways, and the improvement of river navigations can best take such and such forms, that factories can best be located in such and such places and equipped in such and such ways in order to suit the local conditions of production in relation to the consumers' wants, and that, at any given level of prices, the proposed works and installations should cost roughly so much, and should call for the import and for the home production of such and such proportions of the total cost. What neither the economist nor the engineer can say is how the capital or the human driving force required for carrying these projects into effective execution is to be supplied. Neither can answer these questions, in his professional capacity, because they both involve human and political considerations in relation to which neither professes to be expert.

The Opposition to Development

Yet these human and political considerations are evidently at the root of the whole matter. They are, moreover, highly complex. We, who belong to communities which have been through the Industrial Revolution, are apt to take it for granted that, if a particular method of production promises to achieve a large increase in the output of material goods and a large decrease in the effort involved in making each unit produced, the application of that method is clearly desirable and ought, especially in face of the manifest shortage of the means of good living, to be pressed on with all the energy that can be mustered behind it. This is a basic assumption on which our way of living, in Great Britain and still

more in the United States, plainly rests. It has also come to be the assumption on which the way of living rests in the Soviet Union and in Japan. But it is not an assumption on which either the ruling classes or the common people base their actions over the greater part of the populated earth. For many ruling classes in the economically backward countries, the development of advanced industrial methods would mean both a fundamental change in their ways of living and a vast loss of social and political power. Many individual members of these classes might no doubt be enriched, as many landowners were in Great Britain and elsewhere in the nineteenth century by the discovery of coal under their lands or the building of towns and factories upon them. But others—more numerous—would probably not be thus enriched; and there is the danger, no longer to be lightly disregarded, that the development of industrialisation would let loose political forces that would confiscate the riches and make them common property, instead of allowing the present ruling classes to enjoy them. The objective existence of the Soviet Union, as a formerly backward country in which this has actually occurred, is a powerful factor in setting the ruling classes of many countries against any process of development which, even if it resulted in a great increase of productive power, might at the same time stir up irresistible forces of social revolt.

Nor is it only among the ruling classes that the basic assumption of Western economic progress fails to find acceptance. The common people of England did not like the Industrial Revolution while it was actually happening. They hated it, and they had good cause to hate it, because of what it actually inflicted on them, not only economically, but also socially. The new industrialism destroyed the traditional life of the village: it abolished the village crafts and manufactures, and drove countless small cultivators and squatters off the land or from their homes; it reduced for a time a large proportion of the agricultural labourers to a condition of degrading serfdom under the Speenhamland system of poor relief; it flung hundreds of thousands of uprooted peasants under a factory discipline which revolted them, into conditions of hard work for long hours in overheated mills or stifling mines, into formless, dismal, overcrowded, densely congested, ill-built cottages and tenements, making up towns which were without the smallest saving element of citydom or spirit of community; and, finally, it treated them, not as human beings, but merely as 'hands' to be applied to the new machines, or to be flung aside ruthlessly whenever no profit was to be expected from the use of their labour. The Industrial Revolution no doubt, *in the end,*

raised the material standards of living of the main body of the people in each country to which its methods were applied; but was there any country in which the Industrial Revolution was brought about with the goodwill of the common people, or without their bitter, human opposition to it?

Yes; perhaps there was such a country—the United States, though there the change was bitterly opposed in the slave-owning, agricultural South. In the North, there was no hostility such as created in Great Britain the great revolts of Luddites, Trade Unionists and Chartists in the first half of the nineteenth century, for the good and simple reason that in America land was plentiful and labour scarce, so that industrial development could come about, largely with the aid of immigrant labour and without any disturbance of old, crowded peasant populations. The men and women who manned the early American factories went to them by choice, not under compulsion; and usually, if they wished to escape from them to the land, they could escape. The peoples of the Old World, when the great change came upon them, could not escape. The land needed not more but fewer of them: the towns engulfed them perforce.

It would be a miracle if the common peoples of the peasant countries, however poor they may be, wanted industrial development under the conditions on which it has been offered to them hitherto. For industrialism has hitherto confronted these peoples mainly in the shape of a destroyer of their traditional way of life and of the sense of security—poor and insecure though it be by our standards—which living in a traditionally organised community does beyond doubt afford. Of course, I am not denying that men and women are found to seek employment in the mills of Bombay or in the mines of Rhodesia or in the oil-wells of Persia—or of course in similar enterprises in the countries of Eastern Europe. In face of the pressure of population on the land, this is only to be expected; but it is to be observed that the peasant who leaves the land for industrial work is usually most reluctant to cut altogether his connection with his village and with his family and its land, to which he often looks forward to going back after some years of servitude in the town or mining encampment. What I am saying is not that labour cannot be found for industrial enterprises in the backward countries (though in some it has not been found without severe direct or indirect compulsion, e.g. the poll tax). What I am saying is that nowhere does the pressure towards industrial development come from the common people, among most of whom it is regarded as a threat to the only way of living they are in a position to understand, and as the imposition

of an alien rule of life, leading to a ruthless breaking up not only of their economic habits and securities, but also of the entire pattern of values on which their communities rest.

There is, then, no welcome for industrialisation as such, however much it may be the necessary condition of a rise in the standard of living for the peoples of the economically backward countries, either from the ruling classes in these countries or from the peoples themselves. Members of the ruling classes will no doubt often be ready to back particular projects of economic development from which they hope to derive personal profit; and members of the peasant classes will go to work in industrial enterprises where the pressure of population on the land drives them to do so, or where they can hope, after a period of factory or mining labour, to return to their villages with some store of money or goods which they can use to advance their status or standard of life. But the ruling classes will not support projects of development which are designed to enrich the common people at the price of undermining the traditional social structure: nor will the peasants as a class readily be got to see in industrial development a means of improving their own collective position. It cannot be said that either of these classes is wrong in taking up an attitude of hostility. It is true that general economic development would be bound to destroy the powers and pretensions of the old ruling class; and it is also true that industrialisation, as it has been practised hitherto, has done little or nothing to better the economic condition of the main body of the peasantry, and has, especially in the more primitive societies, actually worsened their social condition by breaking up the old solidarity of family and tribal groups.

The Financing of Economic Development

Let us now try to imagine our engineer and our economist, armed with their blue-prints for the development of some backward area, putting forward their combined case in an entirely non-political spirit. Let us imagine them saying something like this: "We hold that the best way of raising productive efficiency and national income in this area will be, first, to improve the navigation of the great river which passes through the heart of it, and of the main tributary rivers, and to combine with this river-work the damming up of the waters at certain points for large hydro-electric power stations and the execution of considerable projects of irrigation and land-drainage; secondly, to build certain railway lines and new or improved roads in connection with them; and thirdly, to establish near the new power stations factories partly for the processing of local raw materials and

partly for the manufacture of low-priced consumers' goods suitable to the requirements of the local population."

Let us imagine our engineer and our economist reporting on this plan of action to a committee set up by the United Nations Organisation to consider the problem—a committee including, of course, representatives of the five leading Powers. How are the representatives on such a body of, say, the United States, the Soviet Union, Great Britain, France and China likely to respond to the plan drawn up by the technical and economic experts? The first question to be asked is obvious: "Where is the money to come from?"—for it is evident that the backward country cannot hope to carry out any such plan entirely out of its own resources. Even if much of the actual work can be done by the labour of its own nationals and many of the necessary materials can be found at home, most of the plant and machinery needed both for doing the work and for operating the new power stations, mines and factories will have to be imported; and there will be no immediate possibility of an expansion of exports on a scale that will make it possible for these additional imports to be paid for out of current revenue. Moreover, while the demand for native labour employed in executing the works required will contribute substantially towards relieving the pressure of population on the land, the labourers employed on these works will wish to spend a part of their wages on imported products, and will thus further increase the demand for imports in advance of the expected improvement in national productive capacity. Thus, a considerable amount of capital will have to be borrowed from abroad—unless, of course, anyone is prepared to offer it as a free gift.

The Terms of Capital Investment

On what terms, and by whom, is this capital to be supplied? The American delegate, at any rate, will be ready with his answer. It is to be supplied, as far as possible, by private, profit-seeking investors, and on terms which will bring such investors into the field. Admitted: it cannot be wholly supplied in this way. That is why the United States has taken the initiative in bringing into existence under the Bretton Woods Plan an International Bank for Reconstruction and Development, with *limited* power to make advances of capital from sums subscribed by the member-Governments, subject in each case to the guarantee of principal and interest by the Government of the State in whose territory the investment is to be made. This limited power, it is explicitly laid down, is intended for projects too big or for other reasons unlikely to attract the private investor or financial agency. It is to be

exercised in such a way as not to compete with private investment, but to stimulate it by undertaking basic projects which will increase its attractions. Even so, it is recognised that private investors may be shy, and may deem too great the risks of investment in the backward countries; and therefore the International Bank has been empowered, besides making loans, to join with the Governments of the countries needing capital in guaranteeing loans made by private investors, who will thus be able, in the event of failure or default, to come in the last resort to the International Bank itself for their money, which the Bank in its turn will have to get from the States which are its subscribing members.

In all this it is plain that the Americans, at any rate, contemplate private capitalist investors or financial agencies as the principal suppliers of the capital needed for the development of the backward countries. They have in mind a state of affairs in which private capitalist agencies would be lending partly to Governments, or to government-sponsored agencies, in the backward countries, and partly to private borrowers acting with the guarantee of these Governments behind them. Furthermore, it has been made abundantly clear since the statutes of the International Bank were drafted that the Americans regard its activities as a means of opening the way for the granting by the backward countries of concessions to American, or sometimes to international, partly-American, profit-seeking companies as the chief means of providing capital for the economic expansion of the world's backward areas.

What will the Soviet representative on the U.N.O. committee we are imagining have to say to this conception? Or, whatever he says, what attitude will the Soviet Government be likely to take towards it? It will be regarded, unless I am much mistaken, as a project of imperialist capitalism for continuing and increasing its domination of the 'colonial' countries—'colonial' meaning, in this context, any country which is compelled by its necessities to look to capitalist countries for the means of economic development. The Soviet representative will be likely to point out—or, if he does not, the Moscow press and wireless will—that here is yet another sinister design of capitalist imperialism for the exploitation of the backward peoples, and that, under the system proposed, there will be no assurance at all of development projects being chosen on the ground of their efficacy in raising the living standards of these peoples. On the contrary, the double need to cajole the private investor and to placate the great business agencies of the advanced countries will ensure the selection of

projects of the score, not of the benefits they will bring to the backward peoples, but of the profits they promise to the foreign investors. Nor is this all; for the Soviet representative—or the Moscow press and radio for him—will argue in addition that the provision of capital on these terms will involve a league between the capitalist investing agencies and the reactionary ruling classes of the borrowing countries, and that this league will ensure that development shall take such forms as will disturb as little as possible, and reinforce wherever practicable, the hold of these ruling classes over their subject peoples.

Accordingly, the Soviet representative, however favourable he may be in principle to the experts' projects, will favour them in practice only when the loans in question can be made to Governments of which he approves, and under conditions which will so limit concessions to private capitalist agencies as to prevent them from establishing or continuing any sort of imperialist domination. But these are precisely the conditions under which the American investors will refuse to supply capital, even if it is guaranteed, and under which the American State Department will refuse to agree to loans or guarantees being given. Witness the entire struggle that is at present proceeding over a great part of Eastern Europe, where the real issue is not how far the Governments of Roumania, Bulgaria and Poland conform to American conceptions of democracy, but whether Governments of the kind they represent are at all likely to be willing to receive American capital on the terms on which American interests, including the State Department, are willing for it to be supplied.

What should be the British Attitude?

What, on these issues, is likely to be the attitude of the Government of Great Britain, which is in the hands of a Socialist, or at least a socialistic, party? So far, to all appearances, the British Labour Government has lined up, on this issue, with the United States against the Russians. That is, at least in part, why Mr. Molotov has habitually bracketed together British and American imperialism. There are, however, large complicating factors. The British Government's support for American attitudes towards the Soviet-inspired Governments of Eastern Europe rests, in the main, not on any enthusiasm for the American attitude towards capitalist trade and investment, but much more on the fear of an extension of Soviet influence in the areas of the Eastern Mediterranean and the Middle East. The British Government is thinking in terms of the Suez Canal, of the possible appearance of Soviet sea-power as a factor in the Eastern Mediterranean,

and of the disturbance of the precarious balance of forces in the Near and Middle East if the Soviet Government can successfully stir up the peoples of these largely Arab countries into a revolt against imperialist exploitation. From the standpoint of mere power-politics, or still more, from that of having as few troubles as possible along the lines of British imperial communications, weak Arab kingdoms, despotically ruled, or largely unruled, look a great deal less formidable than nationalist movements impelled by Communist ideas and responding readily to Soviet influences. Accordingly, the easier way for Great Britain is that of upholding as far as possible the power of the existing misrulers of the Arab and other Near and Middle Eastern States; and of course, this policy meets with the warm approval of the British financiers who are interested in these areas. It is, moreover, a policy which is evidently practicable only if Great Britain can command for it the support and, in the final resort, the actual help of the United States; and in order to secure this it is necessary to let the United States have its way about the kinds of Government that it is prepared to approve, and the terms on which it is willing to participate in the economic development of the backward countries both of Eastern Europe and of the Near and Middle East.

Of course, the situation would be quite different if Great Britain still had both the resources to uphold unaided her far-flung positions and the means of supplying capital out of her own production for the development of the backward countries. But the plain fact is that Great Britain has neither of these things, being short both of man-power and of the means of paying with exports for the imports currently needed to maintain the British people's standards of life. Otherwise, it is to be assumed that the British Labour Government would be doing all it could to foster economic development both in the British colonies and in all backward areas with which there exist close economic or political connections—and to foster such development on terms as favourable as possible to the needs of the backward peoples, not stopping short, where need arose, of helping these peoples against their autocratic and reactionary rulers and ruling classes.

As matters stand, no such policy is being pursued. Despite their difference of fundamental attitude on economic questions, the British and American Governments are standing side by side, actuated by a common fear of the Soviet Union, though the fear rests largely upon different foundations. The American Government dislikes the Soviet Union's economics, which it rightly regards as a threat to the hold of capitalism on the economic life

of the backward countries, and therewith to American economic penetration. The British Government, on the other hand, fears the Soviet Union's politics, as likely to stir up in these countries forces which will upset imperial communications, and perhaps promote revolt in British colonial territories and impose unbearable strains on scanty British resources. These fears lead to a preference for dealing with the known and measurably weak forces of autocracy in the Arab and Middle Eastern world, rather than having to face the unknown forces that might be engendered by popular revolt, and also to a preference for weak, independent States in South-eastern Europe, as against States *gleichgeschaltet* to the institutions and policies of the Soviet Union.

American Investment in Backward Countries

Thus, when the experts' apparently objective plans for the economic advancement of the backward countries come up before a tribunal representing the great Powers without whose participation these plans cannot be carried out, their objectivity speedily gets lost; and the plans are pigeon-holed pending agreement among the Powers upon a practicable method of giving effect to them. The plans cannot become realities without the aid of foreign capital; but there is no agreement about the conditions on which this capital is to be supplied.

Of course, that is not the whole story. One very pertinent further fact is that, of all the countries concerned, only one, the United States, is in a position to supply, on credit, the capital goods which are required. Great Britain might supply many of the actual goods, but cannot afford to do so on credit, because the sums paid for them are needed to cover a deficit in the British trade balance. France and China are in no state to supply either the goods or the credit: they both need credit themselves for re-equipment of shattered industries and, at any rate in China's case, for development as well. The Soviet Union also clearly has uses at home, in rebuilding its devastated industrial areas and in developing its whole capital structure, for all the output of its constructional industries: it has no surplus which it can afford to lend abroad. The Americans are thus the only possible suppliers of the credit and of a large proportion of the actual capital goods which the economically backward countries require; but the Americans show no sign of being prepared to act as suppliers of credit (however ready they may be to supply goods for cash) except on their own terms, which are highly inacceptable to the Soviet Union and to all 'left-wing' elements in the needy countries.

In these circumstances, the willingness of the Americans to lend depends in the first place on the character of the Governments and of the social and economic systems in the borrowing countries. But it depends also on the degree of capitalist confidence in the maintenance of these Governments and systems. It is therefore affected not only by the present situation in the needy countries, but also by the presentiment of risk that they may fall in the future under Soviet influence, to the extent of subverting their existing Governments and social systems and therewith, perhaps, repudiating their foreign debts. If, then, the Soviet Government shows strong hostility to American plans of capitalist domination, and a clear intention of making itself as unpleasant as it can by stirring up trouble among the backward peoples, that is of itself a strong discouragement to the American investors, as well as to the American State Department, and is calculated greatly to reduce the flow of American capital into the countries which are in need of help.

The Attitude of the Soviet Union

The Soviet attitude, as far as I understand it, is that, in the main, social revolution, or at least something approaching it, must precede large-scale economic development, because only social revolution can ensure that the development shall be applied, not for the exploitation of the backward peoples, but for their economic and social advancement. The Soviet Government is not insisting, and very likely does not want to insist, on the backward countries actually "going Communist"—a consummation for which it probably regards most of them as unripe. But it does want them to pass under the control of Governments "left" enough to liquidate the power of their old ruling classes, especially by breaking up big landed estates, and to institute, in the hands of new ruling groups, extensive State control over the structure of their economic life and their external trading relations.

Thus, despite the immense technical possibilities of making the entire human race quite enormously better-off, in a material sense, than it has ever been before, the politico-economic *impasse* is complete. If the backward countries throw in their lot with the Soviet Union, they will get in the short run very little foreign capital, and the pace of their economic evolution is bound to be slow until the Soviet Union, having dealt with its own colossal problems, is ready to help them. On the other hand, if they throw in their lot with the Americans, they will get capital, but it will be used more to serve American business interests and needs than to raise the standards of living among the impoverished peoples,

and will probably carry with it, into the bargain, American political support of reactionary Governments which will have become the guarantors of the international loans granted mainly out of American resources.

The Prospects of Capital Supply

In all this, where is Great Britain likely to come in? In Eastern Europe, very little, in any direct way. It is out of the question for Great Britain to advance capital on any significant scale to the East European countries; for any capital investments Great Britain can make will have prior calls upon them for a long time to come. It is most unlikely that Great Britain, unable to make capital loans, will be able to find any considerable markets for British goods in this area, with which there has never been an extensive commercial intercourse. Great Britain is not likely to take to buying more imports from the countries of Eastern Europe—for most imports can be bought more conveniently elsewhere—and in default of such purchases the countries of Eastern Europe will not be in a position to buy either British machinery or British consumers' goods. If Germany remains out of the market—a question to which we shall come in a subsequent chapter—the United States will be the only available quick supplier. But it will be impossible for these countries to acquire American goods except on credit; and, if credit is refused on politico-economic grounds, that source will be closed. There will remain only the hope of getting goods from the Soviet Union, at first in exchange for current exports, but later also on loan, when the Soviet Union has succeeded in rebuilding adequately its productive power. In the meantime, the peoples of Eastern Europe will remain in primary poverty, suffering from a growing pressure of population on the land, and without the means either of improving their agricultural standards or of launching forth on any major projects of economic development.

Some may say that this conclusion is unduly pessimistic. There are two grounds on which this can be said. In the first place, it may be argued that the imperative need of the American economy to find overseas markets will drive the Americans to make capital loans even to countries whose economic and social systems they dislike, and that the Soviet Union and its satellites have only to stand firm to be sure of getting American capital on their own terms as soon as there is any sign of an impending American slump. There is some substance in this view; and it may even prove to be mainly correct. But it involves more counting of unhatched chickens than I feel entitled to indulge in; and

it may be rendered untenable if political tension continues at a high point. Nor should it be overlooked that the American need to invest in order to open up foreign markets may find sufficient expression in other parts of the world, particularly China and Latin America, and may on that account fail to result in any modification of the American attitude towards Eastern Europe.

The other possible ground for greater optimism is that the Soviet Union, despite the immensity of its internal problems of reconstruction, may on political grounds be prepared to give substantial help to its neighbours in Eastern Europe as long as they are ruled by Governments of which it more or less thoroughly approves. In particular, it may be able to help them in planning and launching public works, designed mainly for agricultural improvement, and needing a high proportion of labour to capital goods for their execution; and it may be able to supply them to a limited extent with improved farm implements and machines. I do not deny that this may happen: I only doubt whether it can happen on a big enough scale to make any considerable contribution to raising East European standards of life, in face of rapidly rising populations. I mean that I doubt this, until the Soviet Union has had time to reconstruct its own industry and agriculture and to resume at a still hotter pace the enormous advances which it was making up to the Nazi invasion of its lands.

Prospects in the Middle East

This is a bleak outlook for the countries of Eastern Europe. Is the prospect better for those of the Near and Middle East, which are equally in need of capital for development, though they are not oppressed in the same way by rural over-population? In these States, the present position is for the most part entirely different. They have not, like the countries of Eastern Europe, undergone social revolutions resulting in a shift in the basis of economico-political power: nor do they fall, at present, with the disputed exception of Northern Iran, within the sphere of influence of the Soviet Union. They are still ruled in a number of cases autocratically by despots of a familiar oriental type, as in Saudi Arabia, Iraq, and Transjordania among the Arab States. In nearly all of them real power rests with a class of reactionary feudal chiefs and landowners. They have little industry, except oil-wells in the hands of foreign companies; and they depend mainly on the export of raw products and foodstuffs, such as oil, cotton from Egypt, and dates from Iraq. The war has brought them a temporary prosperity, because of the outpouring of foreign money in payment for supplies, and because they have been

almost entirely sheltered from world competition during its progress. Turkey stands somewhat apart from the other countries in this area, because it has undergone a social revolution of a sort, and has developed both extractive and textile industries under public auspices on a substantial scale. But Turkey, like the rest of these countries, is predominantly agricultural, and the standard of living for the mass of the people, there as elsewhere, is very low.

For these countries, as for the rest of the world, the United States is the only possible source in the immediate future of large supplies of capital goods on credit for the execution of big development plans. The American oil companies, as well as the British, with which they have been at rivalry (though they appeared, at the close of 1946, to have come to terms), are already strongly entrenched, and are disposed to put up lively resistance to any Soviet penetration. (That, of course, is what the U.N.O. quarrel over Iran has really been all about.) By historical tradition, these countries, lying along the route to India, the Far East, and Oceania, fall within the British sphere of influence, though France has been established since the first World War in Syria and the Lebanon, whose independence she has been brought to recognise only under strong British pressure, inspired by the British desire to keep on good terms, despite differences over Jewish immigration into Palestine, with the Arab States. The recognition of Transjordania as an independent kingdom, the agreement to evacuate Egypt, the equivocations of British policy in respect of the Sudan, and the hesitations over policy in Palestine are all part of the British notion of keeping up friendly relations with the States of the Near and Middle East, however badly they may be ruled, as the only way of maintaining the British position in the Eastern Mediterranean and beyond without incurring military obligations plainly too heavy to be borne. The States of the Near and Middle East are negligible as military powers; for they have no industries on which such power can be based. This makes them in the last resort easier to control; but their poverty and the fact that capital development, where it has occurred, has come to them mainly under the auspices of foreign concession-hunters in search of oil—a peculiarly ruthless body of men—makes them excellent fields for Soviet anti-imperialist propaganda. If Great Britain were in a position to make large capital loans and were prepared to insist on these loans being used to further economic plans designed in the interests of the common people of these countries, their development could be rapid and could be given shapes which would remove any stigma of imperialist exploitation. But Great Britain lacks the resources for such a policy and,

without the resources to help the common people, can maintain influence in the area only by acting as the ally of the reactionary classes at present in power—the more so because these classes also enjoy the favour of the American concession-hunters.

In this part of the world, the only way in which large-scale projects of economic development could be put quickly in hand would be by American economic penetration, backed up by British political influence. But American penetration will involve capitalist exploitation of the most unsavoury kind, under the leadership of the American oil companies; and the British Government, if it were to give its backing to such a policy, would expose itself more than ever to the charge of being in close combination with American capitalism to pursue a concerted policy of imperialism at the expense of the common people. A British Socialist Government must at any cost steer clear of such entanglements; but, if it does, what alternative course is it to pursue? It cannot itself take the place of the United States as a supplier of the capital required: at present it can only continue with a merely negative policy of supporting reaction in these countries, because reaction holds the power and because the alternative of throwing its weight on the side of the progressive forces would stir up at once troubles with which it would be impotent to deal.

The uprising of the common peoples of the Near and Middle East can come, under these conditions, only under Soviet influence; for the Soviet Union will suffer no disadvantage, and might gain, from throwing the entire Middle East into a turmoil, and would in any case have the pleasure of queering the pitch for American capitalism and of causing the British Government a great deal of trouble and inconvenience. It does not follow from this that the Soviet Union will do its utmost to stimulate the forces of revolt; for it may well prefer to use the threat of intensifying its propaganda as a means of exacting concessions elsewhere. The power, however, to act in this way is bound to remain with the Soviet Union, which may at any time decide to exercise it unless some real basis for world accommodation between it and the Western countries can be found.

Economic Development as Affected by 'Great Power' Relations

This is the question, overshadowing all others, to which we must continually come back. It faces the world not merely in the field of international investment, which is the subject of this chapter, but everywhere, as the supreme issue on which the peace and prosperity of the world in the coming time depend. If there is

no means of accommodation, or if, though means there be, accommodation is not accepted, there will be nothing for it but to postpone over a large part of the world hopes of action to deal in any comprehensive way with the dire problems of primary poverty, malnutrition, and ignorance, and to reconcile ourselves to such small and precarious steps as can be taken under the perpetual shadow of another World War of a horror far beyond that from which we have but now emerged.

Let us try to see what can happen, or is likely to happen, in the field of international investment if this gulf is not bridged. We must look forward, in that case, to a sharp division of the economically backward countries into separate spheres of influence. Economic advance in Eastern Europe will have to await the readiness of the Soviet Union, when it has got far enough with its own internal plans, to take in hand the development of its neighbours on lines analogous to those which it followed in its own industrialisation—with the difference that the greater population pressure will necessarily alter the shape of planning, and will cause much more attention to be given to agricultural development and to the production of consumers' goods, and much less to heavy industries, than was given in the early Five Year Plans of the Soviet Union. In the long run, the countries of Eastern Europe would no doubt be pulled up by this method to a somewhat higher standard of living than they have hitherto enjoyed; but the process would be painful and long-drawn-out, and it could not even begin on any noticeable scale for some time to come.

Prospects in the Far East and in India

While this course was being followed in Eastern Europe, American capital would be pouring into China and probably into India and Indonesia as well, in an attempt to build up this part of the world into a great preserve for capitalist, profit-seeking investment. The process would in all probability include the redevelopment of Japanese capitalist enterprise under American auspices and control, and would certainly involve a determined attempt to exclude all Soviet influence and to liquidate any form of Chinese or other Far Eastern Communism that did not definitely break all links with Moscow. United States capital would also probably continue to flow into Latin America; and there would be further attempts to establish American economic influence in Australia. Export of capital to these regions would be kept up, as far as the American Government could keep it up, to a level high enough to avert economic crisis in the United States; and in relation to every

country it would be conducted on a basis of private capitalist profit-seeking, and not, save incidentally, with a view to the advantage of the peoples of the borrowing countries. To suggest this is not to say anything more than is freely said by the Americans themselves. Their predominant creed is still that of the economic man, who in pursuing his own advantage is presumed to be somehow mysteriously achieving the highest sum of welfare. Americans do not start businesses in the United States for the good of their employees or of the whole American people. They do what they think will pay them best; and they cannot be expected to act in their dealings with other peoples on any code superior to that which they practice in dealing with their own.

In China and Japan there will probably be, for some time to come, no obstacles formidable enough to impede this policy. The Far East, or a large part of it, will become an American economic 'colony,' dominated by the almighty dollar and by the American spirit of remorseless grab. There will, of course, be opposing forces, which will naturally look to the Soviet Union for inspiration—for where else can they look? But the Soviet Union will not be in a position to give these forces more than very limited help. It will have its hands full elsewhere—on the assumption we are now making—in helping its neighbours in Eastern Europe and in making things awkward for its rivals in the Near and Middle East.

India and Indonesia, with Burma, Siam and Malaya and the French areas of Indo-China, raise more difficult issues. India, now on the verge of independence, needs foreign capital for development as sorely as any country in the world. But in India there will evidently be a big internal struggle between the forces of native capitalism and the Socialist and peasant elements in the leadership of the national movement, including Moslems as well as Hindus. As an outcome of the second World War India, hitherto a debtor country, has become a considerable creditor of Great Britain, with large sterling balances blocked in London and obviously payable only in British goods over a long period. These sterling balances are destined to supply a part of India's need for capital goods which cannot be paid for by current exports; but, especially as they can be paid off only at a limited rate, India will need capital from other sources, unless development plans are to be very seriously held up. For this additional capital the Indians seem certain to turn to the United States as the only possible supplier, but under what conditions the Americans will be prepared to lend and the new Indian Government to receive loans it is not possible at this stage to say.

The Indonesian problem is somewhat different. The Dutch

Indies and Malaya have already received large foreign investments, Malaya chiefly from Great Britain, and the Dutch Indies—especially Java—from British and American as well as from Dutch sources. Holland's power to export capital has been destroyed for the time being by the ravages of war and by the wiping out of a large part of the German market for Dutch goods; and American capital seems likely to play a substantial part in future development. There is, however, in Java the Indonesian national movement to be reckoned with as a new factor, compelling large changes in the pre-war system of colonial exploitation; but here again it is too soon to predict what the course of events will be, even if, as seems likely, the Dutch Government reaches an accommodation with the moderate Nationalists and is able, on that basis, to hold the more aggressive Nationalist and tribal elements in check. In Malaya too the future is uncertain. The proposed Malayan Union, involving a surrender of authority by the local rulers and the centralisation of economic power in the hands of a federal Government under British authority, met from the outset with much stronger opposition than the British colonial experts anticipated; and it is still too soon to say whether the modified proposal for Malayan Federation, put forward in 1946, goes far enough to allay the fears of renewed colonial domination. In any case, the problem of organising a country in which the native Malays are considerably outnumbered by other elements in the population attracted by rapid economic development and where the key economic positions are largely in the hands of Chinese settlers, has still to solved.

Burma and Siam and Indo-China all present similar uncertainties. The Burmese people will certainly not rest content with any less measure of independence than is accorded to India; and Siam, as an independent country, despite its war record of collaboration with Japan, will be more inclined than before to assert its freedom to shape its own destiny now that nationalism is becoming a more active force among its neighbours. In Indo-China the French were compelled early in 1946 to give recognition to the Annamese Government set up in Viet-Nàm,—a recognition which they seem ever since to have been doing their best to escape from. The main cause of dispute in this area is that the Annamese claim Cochin China as an essential part of their Republic, whereas the French are determined to make it, as well as Cambodia and Laos, into a separate unit in an Indo-Chinese Federation under French control. Cambodia and Laos are definitely not Annamese: Cochin China, the granary of the area, has an Annamese native population largely modified by

settlement from outside. The French, with their habitual conviction that nothing better can happen to any people than to become imbued with French culture under French leadership, are now attempting to weld these various territories together in a wider union embracing all the French colonial empire; but it is still uncertain whether this attempt will succeed, and there is at least the possibility that there may emerge some sort of independence movement covering the entire area, and seeking to link together Burma, Siam, Malaya, Indonesia and Indo-China in a loose federation unattached to any European power. Obviously, the Dutch and the French, as well as the British, will resist any such movement; for the territories affected are sources of some of the world's most important raw materials—rubber, tin and oil—and large masses of foreign capital have been sunk in their development. If these countries succeed in retaining authority, they will wish, as far as they can, to retain the control of economic development in their own hands. But the pressure of American interests will in all probability be too strong to be resisted; and in that event the tendency for investment to take forms dictated rather by the needs of capitalist agencies than by the requirements of the native peoples will be continued and intensified. Nationalist feeling will be strengthened, and will be forced into more radical shape; and Communism may well come to be a powerful force in this part of the world as well as in the Middle East.

The Outlook for Africa

Finally, among the great regions which are in urgent need of capital for the war against primary poverty, we come to the vast African continent. Here, all along the north coast, are territories in which Arab culture predominates, and the Arab League is beginning to become an ideological force. Both Spain and France have to face a resurgence of Arab nationalism in North-west Africa: the future of the Italian colonies from Libya to Somaliland has still to be settled, and cannot be settled without taking into account the reactions on opinion in the Arab States as well as among the populations directly affected.

For the rest, the African continent—negro Africa—presents an enormous unsolved problem to the occupying powers, and above all to Great Britain. The position of the Africans over a large part of the continent is not merely not improving: it is getting worse. Continuous use of lands which were formerly left to revert to jungle and to recover their fertility after a period of cultivation is destroying great tracts of productive land: forests are being

denuded, and vast areas are ridden by diseases which destroy animals as well as men. Immense sums need to be sunk in Africa in warring against pests and diseases, in reclaiming and improving the land, in bringing at least the rudiments of an education that will enable the native to stand up to his changed environment, in developing roads as well as railways, in improving the conditions of marketing, and in a hundred other ways. It is, however, clear that, in the commercial sense, most of this investment cannot possibly pay the investors. It is needed to improve the quality of life, and to rescue the native populations from yet deeper poverty than they are suffering now; but no profit-seeking capitalism will ever undertake it. Indeed, such capital development as has occurred in tropical Africa has been for the most part a means, not of enabling the native populations to benefit by the wealth that has been created, but of draining it away out of the continent, not only in dividends to investors but also in salaries and pensions to European workers and supervisors who remain in Africa only for a period of years before returning home with their takings and, even while they are there, regularly remit a considerable part of their earnings home. This type of development will no doubt continue until it is forcibly checked; for it is profitable to the investors who set it on foot. But nothing will be done along these lines towards tackling the real problems of the African peoples; and there are narrow limits to what can be done with such sums as either Great Britain or any other European country is prepared or able to contribute on a non-profit seeking basis through Colonial Development Funds.

If the world were sanely and decently organised, the immense social problem of Africa would be taken in hand as a world problem, and help would be given as it has been given through U.N.R.R.A. for the sheer task of human salvage. No such approach, however, is even imaginable as long as the territories of "darkest Africa" continue to be regarded as the property of particular great powers, whether these particular great powers be by current standards doing well or ill in their administration of them. No one is going to propose *giving* money to relieve Great Britain or France or Belgium or Portugal of the responsibility for tackling the problems of their colonial territories, however evident it may be that these countries are quite incapable of tackling them in any comprehensive way. Consequently, desperate poverty will continue, and in all probability will get worse as population rises and more land is destroyed, until and unless the great nations of the world cease quarrelling and, under wiser and more decent government, get down at last to the basic moral truth that men

are all brothers, and that the prevention of misery, wherever it is found, is the inescapable common responsibility of all mankind.

Is there a Basis for Common Action?

There will be more to say in later chapters about the problems of the regions which have been summarily discussed in the preceding pages. What we have now to consider, in general terms, is whether there is or is not any practicable basis on which the squabbling Governments of the world can sufficiently resolve their differences to be able to act together in pursuance of an agreed policy of international provision of capital to meet the urgent needs of the more backward areas. We have tried to see what is the outlook if the great powers fail to agree on any basis for common action: let us try now to see whether there is any practicable way of providing better for the immediate future of the human race.

Russian and American Ideas of Democracy

It all comes back, of course, to fundamental differences about the right ways of living in communities and of conducting their common affairs. In the view of the present leaders of the United States, as in that of the leaders of British opinion in the nineteenth century, the necessary basis for 'liberty' is 'private enterprise,' and reliance must be placed on the 'freedom of the market' to ensure both economic welfare and personal liberty. If in fact this arrangement makes some persons very rich and powerful and confers on them great authority over others, such an outcome is regarded as entirely consistent with democracy, subject only to the proviso that it is not due to 'monopoly,' which is objected to as interfering unwarrantably with the freedom of the market. It is regarded as the duty of the State, as far as it can, to prevent monopolistic practices; but apart from this it is held that the State ought to stand aside from the conduct of economic affairs, leaving them to work out according to the law of the market—which others have aptly called "the law of the jungle." The familiar American political theory of democracy follows exactly the lines of this economic theory. Everyone should be free in politics to advocate what he pleases, and to take what steps he pleases to make his view prevail, provided only that he does not claim or employ any monopoly. If this means in practice that there arise great parties dominated by rich men, or if political campaigns are swung by a vast outpouring of money by interested parties, that does not matter either, provided that the principle of

'no monopoly' is not flagrantly infringed. The traditional American conception of democracy is simply that of competitive capitalism transferred from the economic to the political plane.

The Russian conception of democracy is poles apart from the American. The entire stress is laid in the economic field on collective ownership and control of all the essential instruments of production, and on their planned use to serve whatever ends the society as a whole, through its collective planning agencies, may determine. The Russian conception of economic freedom is not freedom to buy what you please, if only you have money to buy it with, or to work where you please, if only there is a job to be had, but freedom *from* exploitation by the capitalist class. It is not the freedom of the individual to do what he likes, either as producer or as consumer, but the freedom of a class from being subject to another class. This economic conception, transferred to politics, leads to a one-party system as surely as the American conception leads to more than one party. It puts the emphasis on the 'collective'—on the 'whole'—and regards each citizen as a contributor to the life of the State, who is under an obligation to contribute rightly just as much as he is to serve the planned economy in the job where he can be of most use. The citizen who opposes the general plan, economic or political, is regarded as a bad citizen, and as in need of discipline; for he is failing to fall in with the general policy which the class, through its representative, the party, has decided upon as correct. There may be circumstances in which such bad citizens have to be tolerated, on grounds of expediency; but the whole notion that a free opposition is necessary to good democratic government, or that freedom is advanced by allowing dissenters to air their views, runs directly counter to the Soviet conception of freedom, as the condition of not being subject to class-exploitation by a superior ruling class.

The differences between these two rival ideas of 'democracy' are perfectly clear, though they are not often so stated as to bring out clearly the different economic foundations on which they rest. It is evident that the opposition between them is fundamental, and covers the entire field of economic as well as political organisation. There is no way in which it can easily be bridged, and it is easy to draw the conclusion that it cannot be bridged at all. Indeed, if the Americans and the Russians, both under their present leadership, are to dominate world affairs in the next phase of human history, there would seem to be no answer except that the world will have to be divided into two spheres of influence, with the one system in operation in the one sphere, and the other in the other.

But—neither of these rival conceptions of democracy is the conception which I hold, or which, I think, is held by the majority of people in Great Britain or, perhaps, in Western Europe. I think, and I believe most of the readers of this book think, of democracy as the system which is designed to give the ordinary man and the ordinary woman a decent all-round chance of being happy. On the economic plane I think of it as involving enough social control of the means of production, distribution and exchange to ensure that the essential resources are put to good use in the service of ordinary people. I am at one with the Americans in opposing private monopoly, and at one with the Russians in a faith in planning; but I do not hold either, with the Americans, that unfettered competition can be relied on to achieve good social results, or, with the Russians, that there can be no danger to freedom if the means of production are collectively owned, and if there is no capitalist class to exploit the workers for profit. Similarly, on the political plane, I hold that no society can hope to be democratically conducted unless certain basic rights are placed beyond challenge and certain basic assumptions made. These assumed rights are, very broadly, the right of every citizen to as good a basic education, including education in citizenship, as the society can contrive to provide; the right to organise, to speak and to write freely, for any purpose other than that of limiting the rights of others to do the same; the right to treat all property as held by individuals only on condition of their using it in accordance with the general interest, and to take it away if it is not so used; and the right of the people, acting under these conditions, to prevail, by a majority, and not to have their decision vetoed or held up by any privileged minority. I am thus at one with the Russians in holding democracy to be inconsistent with minority class rule, or with preponderant influence exercised by any minority class; but I am at one with the Americans in stressing the freedom to organise and to speak one's mind, even in furtherance of attitudes or opinions which run counter to those of the majority, or of the persons and agencies that claim to represent the majority.

I state these views, not as my views, but as the views which are characteristic of Western Socialism, and as shared by a good many people in Western Europe who are not prepared to call themselves Socialists. I state them as being neither of the American individualist brand, nor of the Russian Communist brand. If America and Russia are henceforward to divide the empire of the world between them, a good many of us, within

whichever sphere our lot may fall, will find ourselves subjected to a form of government with the basic assumptions of which we strongly disagree.

In some sense this third conception that I have been trying to state clearly falls between the other two. It is neither so individualistic as the American conception nor so collective as the Russian. It takes its stand neither upon the devil-take-the-hindmost form of individualism which has been the traditional philosophy of capitalism, nor upon that form of Marxism in which the individual gets lost in the class, and human history is envisaged as a war of class forces and men count only as statistical units in a mighty impersonal process of determined evolution. This third conception is collectivistic, in the sense that it insists on the need for collective control over the use made of the essential resources on which mankind depends for the means of living, and of living well: it is individualistic, in the sense not of claiming for the predatory individual a right to assert his *ego* at his neighbour's expense, but in that of demanding a social framework in which ordinary people can live the lives they like leading, and express the views they hold, within the widest limits compatible with their keeping together as a community and not forfeiting their power of collective achievement, as they inevitably would if there were no rules at all.

Can Britain give a Lead in Western Europe?

The question is: Can this middle system, which lies geographically as well as ideologically between the two extremes, so mediate between them as to make possible united action over the limited field which requires common tillage by all the peoples of the earth? Clearly it cannot, unless it can so organise itself as a power in the world as to induce the other combatants to take notice of it and to recognise its existence as something more than a wretched, self-contradictory compromise, born of timidity and muddled thinking—which neither combatant will at all easily be persuaded to do. For to the Americans we British Socialists and the continental Social Democrats are apt to appear simply as half-hearted Communists too timid to go the whole way, but equally with the Communists as traitors to 'capitalist democracy'; whereas to the Russians we appear as frightened abettors of capitalism, doing the bidding of the personified demon of Anglo-American capitalism while we profess to follow the Socialist path.

How unpleasant it can be to be placed between these two fires the Socialists of France, of Belgium, of Holland, and of Italy—to say nothing of the renascent Social Democracy of Germany—

have ample cause to know. We in Great Britain have been spared this unpleasantness at home because of the weakness of British Communism, though we are feeling it in relation to foreign affairs. Our relative immunity puts great obligations on the leaders of British democratic Socialism; for it rests with them, more than with any other body of men, to build, or to fail to build, a bridge, or rather to devise a method of co-operation which the Americans and the Russians can accept as preferable to a division of the world into two hostile groups, with the unavoidable corollary of preparation for a third World War.

On what principles can such a solution be based? The first condition of it is that Great Britain and other countries which elect to work with Great Britain in pursuance of it must make it fully clear to both the Americans and the Russians that neither of their solutions will be accepted, and that Great Britain and these other countries will on no account line up with either America or the Soviet Union to prepare for another war. Secondly, it must be made plain that the solution that is being attempted is not that of creating a third bloc in hostility to the other two, but rather that of establishing the nucleus of a world organisation in which everyone can play a part. Thirdly, the countries which seek this way of promoting world co-operation must be ready to co-operate closely one with another, but in such a fashion as will not give their co-operation any character of exclusiveness. Fourthly, these countries must use every means that is open to them of appealing directly to the peoples both of America and of the Soviet Union, in order to bring home both the appalling dangers of any line-up that may lead to a new World War of rival ideologies, and the immense possibilities that are open to the sons of men, if they will but work together in applying the combined resources of nature and science to their common service.

The Principles of Western Unity

So much for the conditions: now for the principles themselves. The first of these must be that of constructive common consultation. If it is right for the Americans, at Pan-American Conferences, to define principles of common action for the entire American continent; if it is right for the Soviet Union to plan unitedly for all the Republics and nationalities within its extensive territories; it cannot be wrong for the peoples of Western Europe to lay down common rules for their own conduct, or to plan in consultation one with another the means of improving their conditions of life. Nor can it be wrong for those of them which are in

possession of dependent empires to formulate unitedly the principles on which the subject peoples of their colonial territories are to be set free from alien rule and to be helped to develop their resources in such a way as to make possible a steady improvement in their standards of life. It cannot be wrong for these countries to co-ordinate their transport agencies in order to improve communications over their combined area; nor, whatever the Americans say, can it be wrong for them mutually to lower their tariffs, or relax their restrictions on imports, in order to get nearer to areas of free commerce corresponding to the already vast tariff-free internal markets of the United States and the Soviet Union. At the same time, they must be careful to avoid doing any of these things in such a way as to cut themselves off from either the United States or the Soviet Union to a greater extent than they are cut off by the action of these countries. Thus, they may mutually lower trade barriers, but they must avoid raising new barriers against trade with the rest of the world. They may co-ordinate their own transport systems; but they must not in doing so impose disadvantages on the traffic of other countries passing over them. They may give one another mutual access to colonial markets, but they must not close these markets to others.

Above all, the countries of the West must set out to devise models of international economic development which are open to American and to Soviet collaboration; and they must do this in such a way that they cannot be represented as dictating to either the Russians or the Americans how they are to behave in areas in which *de facto* the control of policy rests mainly in Russian or American hands. It is of no benefit for either Great Britain or France to put forward plans for the unification of the Danube region, because the Russians will inevitably regard any such plans as an impertinent interference in the affairs of an area with most of which their concern is very much greater than that of the West, and will suspect a plot on the part of 'British-American capitalism' to open the Danubian region to new forms of capitalist exploitation. Similarly, it would be futile to put forward plans for international organisation in Japan or in China, because the Americans regard these countries as falling within their peculiar sphere.. However strongly it may be held that this division of the world into rival spheres of influence is a disaster, there is no burking the fact that it exists, and that the only hope of making the division less absolute lies in devising forms of collaboration elsewhere, in areas which are not regarded by either the Russians or the Americans as their peculiar preserves.

This means, of course, that the key area, in this connection, is

Western Germany, and, above all else, the Ruhr. If means can be found of establishing international collaboration in the handling of the problem of Germany, the foundations will have been laid for joint action over a much wider field. Whereas, if the German problem remains unsolved, nothing else can be solved, and Western Europe is doomed to become, not a rallying point for a system of world collaboration, but a wretched victim of the rivalries of the two great contending powers, with neither of which it can afford or desire to throw in its lot against the other.

Germany, then, is the key area, and within Germany the Ruhr is the crux of the whole problem. In the next chapter, we shall study this crucial matter, and try to discover what prospect there is of making the Ruhr, instead of an obstacle, a factor of hope and achievement in a discordant world.

CHAPTER IV

THE PROBLEM OF GERMANY

PRE-WAR GERMANY, WITH ITS population of nearly 70 millions, excluding Austria and the territories annexed by the Nazis before the war, was by far the most populous State in Europe except the Soviet Union. Geographically, it occupied a key position on the continent. It had common land frontiers with no fewer than nine other States—Denmark, Poland, Lithuania, Czechoslovakia, Austria, Switzerland, France, Belgium and Holland—not counting Luxemburg; and in the Baltic region it was in close contact also with Sweden, Finland, Esthonia and Latvia—and, if it chose, with the Soviet Union as well. It was thus the immediate neighbour of both East and West, and was excellently placed for trading and other relations with the

PRODUCTION OF CERTAIN MATERIALS IN GERMANY AND OTHER PARTS OF EUROPE, 1938 OR NEAREST AVAILABLE YEAR

(*Metal content*)

	Germany	*Central and Eastern Europe, Turkey included*	*Western Continental Europe*	*United Kingdom*	*U.S.S.R.*	*Estimated world totals, 1938*
Coal, million metric tons	186	57	98	231	133	1,232
Lignite as coal, m.m.t.	36	16	1	—	—	56
Iron ore, m.m.t.	3·1	2·2	23	3·6	13·5	74
Manganese ore, thousand metric tons	209	80	14	—	—	3,025 (1937)
Copper ore, t.m.t.	30	45	87	—	98	2,026
Lead ore, t.m.t.	86	104	88	30	69	1,783
Zinc ore, t.m.t.	215	141	168	12	80	1,875
Tin ore, t.m.t.	0·3	—	1·2	2	—	163
Bauxite, t.m.t.	93	1,141	1,044	—	250	?
Chrome ore, t.m.t.	—	149	0·2	0·1	90	520
Nickel ore, t.m.t.	0·6	1·2	1·2	—	2·5	115
Tungsten ore, t.m.t.	—	—	2·0	0·2	?	21·5
Calcium ore, t.m.t.	0·4	0·2	0·7	0·1	0·1	4·1
Antimony ore, t.m.t.	—	5·7	1·3	—	—	36
Vanadium ore, t.m.t.	—	—	—	—	—	2·7
Molybdenum ore, t.m.t.	—	0·1	0·5	—	—	16·3
Mercury ore, t.m.t.	—	0·1	3·7	—	—	5·1

Western Europe here includes Scandinavia (with Finland), Holland, Belgium, Luxemburg, France, Spain, Portugal.

North. Czechoslovakia, Austria and Switzerland lay across its lines of communication with Italy and with South-eastern Europe; and Poland and Lithuania held it apart from the Soviet Union. From Holland to the Polish frontier it occupied a part of the great Northern Plain that stretches right on across Russia to the Urals; and after the annexation of Austria it extended right to the Alps, and had new common frontiers with Italy, Hungary and Yugoslavia. Pre-war Germany was, in fact, essentially the centre of Europe; and its finger was bound, even without the Nazis, to be in every European pie.

The New Map of Germany

To-day, the map of Europe is greatly changed, especially in the East. A large segment of Eastern Germany has been detached and



THE OCCUPIED ZONES OF GERMANY AND THE AREAS ANNEXED BY POLAND AND THE SOVIET UNION

annexed, mainly to Poland, though a part of East Prussia, including Königsberg, has been incorporated in the Soviet Union. All Silesia and all Prussia as far west as a line drawn southwards from

Stettin, are now Polish territory, and large expulsions of population, to make room for Polish settlers, have been taking place. Esthonia, Latvia and Lithuania have disappeared as independent States, and form part of the Soviet Union. In the east, Germany has now but two land neighbours—Poland and Czechoslovakia; and in the south there is again an Austrian frontier. In the west, no territorial changes have yet been made; but France is in occupation of the Saar and the Rhineland, and has laid claim to at least the Saar area, as a permanent acquisition. The rest of Germany is also occupied—the south by the Americans, the Ruhr and the north-west by the British, and the central area, except Berlin itself, by the Russians. Berlin is in joint occupation by the four great powers, each with its own zone in the city, but with the Russians in control of the whole country roundabout. In each separate zone, both in Germany as a whole and in Berlin, different conditions exist, according to the policies followed by the occupying powers. Even basic food rations have differed greatly, up to the economic unification of the British and American Zones at the end of 1946, and have been worst in the British zone —always a 'deficit area' in respect of food supplies, which used to be drawn partly from imports and partly from the 'surplus' areas of Germany further east, now in Soviet hands. The food situation in the west is aggravated by the inpouring of displaced persons and refugees from the east—from Czechoslovakia as well as from the areas now in Russian and Polish hands.

The future of this great country—or rather, of what remains of it now that it has been shorn of its eastern provinces—is the greatest problem confronting post-war Europe. The new German frontier in the west has still to be settled; and it is still undecided whether what is left when the annexations are at an end is to constitute and to be governed as a single country, or as several different countries under different systems and controlled by different occupying powers.

The Potsdam Agreements

Certain decisions about the future of Germany were indeed taken at the Potsdam Conference of 1945, at which France was not represented; but their wisdom was questionable at the time, and it has become more and more evident that they cannot be fully implemented in practice. As they form the starting point for all subsequent discussions of the future of Germany, it is necessary to summarise them briefly here.

Clause 1 of the Potsdam Agreement provides for the separate administration of the several zones of occupied Germany by the occupying Powers, and for the handling of matters affecting Germany as a whole by a Control Council representative of these Powers.

Clause 2 lays down that "so far as is practicable, there shall be uniformity of treatment of the German population throughout Germany."

Clause 3 provides for the complete disarmament and demilitarisation of Germany and for "the elimination or control of all German industry that could be used for military production." It goes on to decree the complete destruction of the Nazi Party and its related organisations and institutions and measures to prevent their revival in any form; and it then directs the occupying authorities "to prepare for the eventual reconstruction of German political life on a democratic basis and for eventual peaceful co-operation in international life by Germany."

Clause 4 abolishes all Nazi laws involving discrimination "on grounds of race, creed or political opinion."

Clause 5 provides for the trial of war criminals and for the internment of Nazi leaders and of "any other persons dangerous to the occupation or its objectives."

Clause 6 provides for the removal of all active Nazis "from public and semi-public office" and from responsible positions "in important private undertakings," and for their replacement by persons "capable of assisting in developing genuine democratic institutions in Germany."

Clause 7 declares for the control of German education in order to eliminate Nazi and militarist doctrines and to make possible the successful development of democratic ideas.

Clause 8 provides for the reorganisation of the judicial system.

Clause 9 declares that "the administration of affairs in Germany should be directed towards the decentralisation of the political structure and the development of local responsibility." It orders the restoration of local government on democratic principles "as rapidly as is consistent with military security and the purposes of military occupation." It goes on to declare that "all democratic parties with rights of assembly and of public discussion shall be allowed and encouraged throughout Germany," and to provide for the introduction of representative elections in regional, provincial and state administration "as rapidly as may be justified by the successful application of these

principles in local self-government." Finally, the clause declares that "for the time being no central German Government shall be established," but that there shall be central administrative departments, headed by State Secretaries, under the direction of the Control Council. It is specified that these departments are to deal particularly with finance, transport, communications, foreign trade, and industry.

Clause 10 lays down that, subject to military security, "freedom of speech, press and religion shall be permitted," and also that "the formation of free trade unions shall be permitted."

The Economics of Potsdam

The Potsdam Agreement then proceeds to certain important economic declarations.

Clause 11 prohibits all manufacture in Germany of war material, aircraft, and sea-going vessels. It provides for "rigid control" of all manufacture of metals, chemicals, machinery, and other items that are directly necessary to a war economy, and decrees the restriction of such forms of manufacture "to Germany's approved post-war peacetime needs," as defined in Clause 15. It goes on to provide for the removal as reparations of productive capacity "not needed for permitted production," or for its destruction.

Clause 12 provides for the decentralisation of the German economy by the breaking up of cartels and other monopolistic arrangements.

Clause 13 lays down that in the redevelopment of the German economy primary emphasis is to be given to agriculture and to peaceful domestic industries.

Clause 14 begins by declaring emphatically that "during the period of occupation Germany is to be treated as a single economic unit," and goes on to declare that common policies are to be established for industry, agriculture, wages, prices and rationing, import and export programmes, currency and banking, taxation and customs, reparations and removal of industrial war materials, and transport and communications, subject to account being taken of varying local conditions.

Clause 15 provides that "allied controls shall be imposed upon the German economy, but only to the extent necessary" to secure the following objects:

> "(*a*) to carry out programmes of industrial disarmament and demilitarisation, of reparations, and of approved exports and imports;

"(*b*) to assure the production and maintenance of goods and services required to meet the needs of the occupying forces and of displaced persons in Germany, and essential to maintain in Germany average living standards not exceeding the average of the standards of living in European countries (European countries means all European countries excluding the United Kingdom and the Union of Soviet Socialist Republics);

"(*c*) to ensure in the manner determined by the Control Council the equitable distribution of essential commodities between the several zones so as to produce a balanced economy throughout Germany and reduce the need for imports;

"(*d*) to control German industry and all economic and financial international transactions, including imports and exports, with the aim of preventing Germany from developing a war potential and of achieving the other objectives named herein;

"(*e*) to control all German public or private scientific bodies, research and experimental institutions, laboratories, etc., connected with economic activities."

Clause 16 provides for the creation of German administrative machinery for the conduct of the controls prescribed in the Agreement, and for the prohibition of any German controls which may run counter to the objectives of occupation. The purpose of this provision is stated as being to bring home to the German people that the responsibility for carrying out the controls rests with them.

Clause 17 requires prompt measures for the repair of transport, the increase of coal output and of agricultural output, and for the emergency repair of housing and essential utility services.

Clause 18 deals with the disposal by the Control Council of German-owned external assets.

Clause 19 lays down that "payment of reparations should leave enough resources to enable the German people to subsist without external assistance," and that means must be provided to pay for German imports approved by the Control Council, the proceeds of exports to be available in the first place for payment for such imports. It is added that this clause is not to apply to goods sent out of Germany as reparations under the relevant clauses of the separate Reparations Agreement.

Reparations

This general agreement was accompanied by a number of further agreements concluded at the Potsdam Conference. Of these, only one, dealing with reparations, concerns us here and now. Under it, reparations were to take the form neither, as after the first World War, of money payments, nor, as had been often suggested, of "reparations in kind," by the use of German labour and materials in reconstructing the areas devastated by the Nazis, but of actual industrial plant, which was to be removed from Germany and re-erected in the countries entitled to receive it, of ships, and of foreign assets owned by German nationals. In general, the removal of plant from Germany was to be subject to the limitations specified in the main Potsdam Agreement—that is to say, enough was to be left to enable the German people to maintain the standard of living therein laid down. All plant surplus to these requirements, as defined by the Control Council, was to be subject to removal as 'reparations'—a conception subsequently complicated by arguments on the part of the Russians about German assets which should be regarded as 'war booty,' and not as 'reparations,' and accordingly as removable without limit and without reference to the Potsdam Agreements.

Reparations were in general to be taken by the Russians from the Eastern zone of Germany, which was occupied by the Red Army, and by the other powers from the Western zones, which they occupied. The Soviet Union, however, agreed to meet Polish claims out of its share; and it was of course contemplated that French, Belgian and other Western countries' claims should be met from the Western zones. (France, it will be remembered, was not represented at the Potsdam Conference, and was allotted a separate zone of occupation only at a later date.)

The Russians, in addition to the reparations they could collect from their own zone of occupation, were to share in two ways in the reparations available in the Western zones. In the first place, they were to receive 15 per cent. of the 'surplus' equipment in the metallurgical, chemical, and machine-manufacturing equipment of Western Germany, but were to pay for this in food, coal, and other commodities—presumably including products of their own zone of occupation, though this was not actually stated. Secondly, they were to get, without making any return, 10 per cent. of other surplus capital equipment in the Western zones.

All deliveries of German equipment as reparations were to be made within two years, whereas the Russian return payments mentioned in the preceding paragraph were to be spread over five years. A subsequent agreement was to regulate the distribution of

the German navy and merchant marine. German foreign assets situated in Bulgaria, Finland, Hungary, Roumania and Eastern Austria were to go to the Soviet Union: those situated elsewhere were to go to the Western powers.

Reparations at the Yalta and Paris Conferences

It was generally supposed, after the Potsdam Conference, that the idea of exacting reparations from Germany in any form other than the delivery of 'surplus' industrial equipment had been given up. At the Yalta Conference of February, 1945, it had been laid down that reparations should be required in three forms—deliveries of capital equipment from existing German plants, deliveries of goods from the current output of post-war German industry, and reparations in the form of German labour to be employed in repairing war damage in devastated countries. The terms laid down at Potsdam seemed, however, by limiting future German industrial capacity to the minimum necessary to maintain the permitted standard of living, to rule out all possibility of deliveries from future German production; and, as nothing was said about the use of German labour abroad, it was assumed that this proposal too had been dropped. Nevertheless, at the Paris Conference of July, 1946, Mr. Molotov reaffirmed the Soviet Union's demand for reparations deliveries over a period of years from current German output, coupling this claim with a reference to a total sum of 20,000 million dollars for German reparations in all forms, half of this total to go to the Soviet Union. This figure, he claimed, had been agreed upon at the Crimea Conference, and it appears that it was in fact agreed upon by the Soviet and American representatives at the Conference, but not by the British.

Probably Mr. Molotov brought forward this demand, not because he expected it to be satisfied, but as a counter to proposals that the permitted level of German industrial capacity should be raised in order to enable more goods to be exported in payment for necessary imports of food into the Western zones. The British, in particular, had declared their inability to go on meeting the cost of feeding Germany while the Soviet Union was drawing away surplus supplies from its zone of occupation; and this brought up the whole question of "German economic unity" and of the Potsdam limitations on German productive capacity, which Mr. Molotov agreed it might be necessary to modify.

The Future of German Industry

The foregoing paragraphs give the gist of the economic part of the Potsdam Agreements, under which the affairs of Germany

have since been administered. The governing ideas behind them were, first, to limit German productive capacity in such a way as to remove all danger of successful rearmament; secondly, to reduce the German standard of living to the "average standard" of continental Europe—whatever that might be taken to be; and thirdly, to devise a form of reparations payment that would not involve money transfers or the maintenance of German export industries at a high level as a means of paying, that would not require the employment of German labour abroad, and that would be over and done with as soon as the physical removal of existing plant had been achieved.

There can be no reasonable dispute about the need to limit German industrial production so as effectively to prevent rearmament. The difficulty lies in reconciling this evidently necessary condition either with the maintenance of a tolerable standard of living in Germany or with the prosperity of Europe as a whole, in view of the past dependence of many European countries on trade with Germany and on German capital goods for the development of their own industrial enterprises. The Potsdam scheme attempted to deal with these two difficulties, first, by defining at a low level the standard of living at which the Germans were in future to exist, and secondly, by proposing the re-erection elsewhere of so much German industrial capacity as, it was supposed, would remove the dependence of other countries on German exports. It was not made clear what was to happen to the trade of countries which had hitherto depended largely on the German market, especially for primary products; but it is to be supposed the underlying idea was that the transfer of German industries to other parts of Europe would carry with it the markets of which these industries had been the effective source.

These decisions of the Potsdam Conference were left to be applied by the allied Control Council, which had to determine how much industrial capacity of various kinds would need to be left to Germany in order to make possible the standard of life to be allowed to the German people, and to provide for a sufficient volume of exports both to pay for the imports required to maintain this standard and to contribute to the allied costs of occupation. There were big controversies on this question on the Control Council before, in March, 1946, it was at length announced how much industrial capacity the Germans were to be allowed to retain; and, even when the announcement was made, it had to be accompanied by a British reservation that the whole question might need to be reopened if any change were made in Germany's western frontier. The plan made public in March divided German

industry into a number of categories. In the first place, a number of industries were forbidden altogether. Then came a group of industries making producers' goods, to which restrictions of varying degrees of severity were to be applied. Third came a group of industries making consumers' goods which were also to be restricted; fourth, a group of similar industries of which the future output was to be "planned" by the Control Council, but not made subject to a definite maximum; and fifth, a group of unrestricted industries, in some of which it was laid down that production was to be increased to the greatest practicable extent.

Prohibited and Restricted Industries

The complete prohibitions covered a wide range of products of which Germany was a large-scale producer before 1939. The list included not only all armaments and sea-going vessels, as well as aircraft, but also all forms of synthetic oil and rubber, synthetic ammonia and a number of specified war chemicals and gases, all radio-active materials, a number of metals, among them aluminium, magnesium, beryllium and vanadium, and some important engineering products, from heavy tractors and heavy machine tools of a variety of types to ball and roller bearings and to all forms of radio transmitting equipment. In certain of these cases the continuance of production was to be allowed temporarily, on a controlled scale, for meeting domestic needs until the necessary imports could be procured and Germany was in a position to pay for them.

This list of specific prohibitions, wide as it was, was of considerably less importance than the second list, setting out the amount of output that was to be allowed, by 1949, in a wide range of industries producing capital goods and intermediate products. For this second list in fact included most of the industries which were the basis up to 1939 of Germany's export trade, as well as of production of metal goods for the home market; and it was evident that the output allowed in this group would be in practice the key factor in determining Germany's economic future. The biggest struggle on the Control Council, before the recommendations were issued, centred round the amount of steel capacity to be left to Germany and the actual output to be allowed. The final decision was that the Germans should be allowed to retain a producing capacity of 7,500,000 tons, but that the permitted actual output should be only 5,800,000 tons. These were much higher totals than were proposed by the Russians, but a good deal lower than the British Government wished to allow.

Steel is, of course, the key to many branches of manufacturing industry; and the amount of steel production allowed to the Germans will in practice set limits to many other forms of production, even where no specific restrictions are imposed. Now, Germany's pre-1939 output of steel was of course affected during the years of Nazi rule by intensive war preparation; and for a fair assessment of normal output unaffected by this factor it is necessary to go back to 1929, before the beginning of the world depression. In that year Germany's output of steel was approximately 16½ million tons. In 1936, the year taken as the basis for the Control Council's assessment of German pre-war production, steel output was rather more than 19 million tons. The proposed capacity of 7,500,000 tons was thus less than 40 per cent. of the actual output of 1936, and the proposed output of 5,800,000 tons was only just over 30 per cent. This latter amount would be hardly more than enough to cover the pre-war consumption of the smaller miscellaneous metal industries, without allowing anything at all for engineering, shipbuilding, vehicle-construction, structural steel for buildings, or any of the major uses of the material. It was, in effect, an intentionally prohibitive figure, at which it would be quite out of the question for the Germans to develop any substantial engineering industries, or to conduct a considerable export trade in any class of metal goods. There is a provision in the scheme which allows this quota of actual output to be revised within the limit set by the permitted productive capacity of 7,500,000 tons; but this latter figure, which was laid down as unalterable, is itself plainly inadequate to allow any important resumption of Germany's past position as an exporter of metal goods, or to make the country self-supporting.

In the accompanying Table A, the output which the plan of March, 1946, proposed to allow to Germany is set forth for the main classes of producers' goods of which some continued output was to be permitted. It will be seen that the proportion of pre-war output—or rather, of *capacity*, which is by no means the same thing—differs greatly from case to case. It is highest for agricultural machinery, as is essential if it is in contemplation that Germany is to become much more an agricultural country; but even in this instance the permitted capacity is only four-fifths of the pre-war output. At the other end of the scale machine-tool capacity is scaled down to a mere 11½ per cent. of the 1936 output—a derisory quota which would be inadequate even to provide for normal replacements of worn-out and obsolete tools, whereas in fact the need for replacements would obviously be for some time much above the normal in most of the non-war

ALLIED CONTROL COUNCIL: DECISIONS CONCERNING THE PRODUCTIVE CAPACITY TO BE RETAINED BY GERMANY IN CERTAIN INDUSTRIES, 1949

A. Producers' Goods Industries

	Output in 1936	*1949 level*	*Percentage of pre-war capacity left to Germany*
Steel	19·2 mn. tons	7·5 mn. tons	39
Light metals	765,000 tons	404,000 tons	54
Basic chemicals (nitrogen, phosphates, calcium, carbide, sulphuric acid, chlorine, alkali)	RM. 920 mn.	RM. 368 mn.	40
Machine tools	RM. 645 mn.[1]	RM. 74 mn.	11·4
Heavy mechanical engineering	RM. 1,394 mn.[1]	RM. 432 mn.	31
Light mechanical and constructional engineering	RM. 2,291 mn.[1]	RM. 1,145 mn.	50
Electro-engineering	RM. 3,000 mn.[1]	RM. 1,500 mn.	50
of which			
Heavy electrical engineering	RM. 130 mn.[1]	RM. 40 mn.	30
Trucks	59,000	40,000	67
Agricultural machinery	RM. 323 mn.[1]	RM. 258 mn.	80
Light agricultural tractors	13,900	10,000	72
Precision instruments and optics	RM. 491 mn.	RM. 340 mn.	70
Dyestuffs	—	36,000 tons	—

industries which Germany was to be suffered to retain, because in these branches of production normal replacements were impracticable during the years of war.

Machine tools are an extreme case; but even in light engineering the permitted capacity was put at only half the 1936 output, and in heavy engineering, even apart from the kinds that are forbidden altogether, at less than one-third. Basic chemicals, apart from those which were prohibited, were put at only 40 per cent. of the output of 1936.

This list needs to be studied in conjunction with the list given in Table B, which covers the two categories of 'restricted' and 'planned' industries producing consumers' goods. In the 'restricted' industries belonging to this group the cuts were less drastic than in the case of producers' goods; but even so, they involved in every instance severe reductions on pre-war capacity; and the same is true of the industries which are 'planned' but not 'restricted'—the difference presumably being that in the second, but not in the first of these categories, the Germans were to be free in due course to acquire fresh plant if they could, and thus to expand their production beyond what was planned for 1949.

1938.

ALLIED CONTROL COUNCIL: DECISIONS CONCERNING THE PRODUCTIVE CAPACITY TO BE RETAINED BY GERMANY IN CERTAIN INDUSTRIES, 1949

B. Consumers' Goods Industries

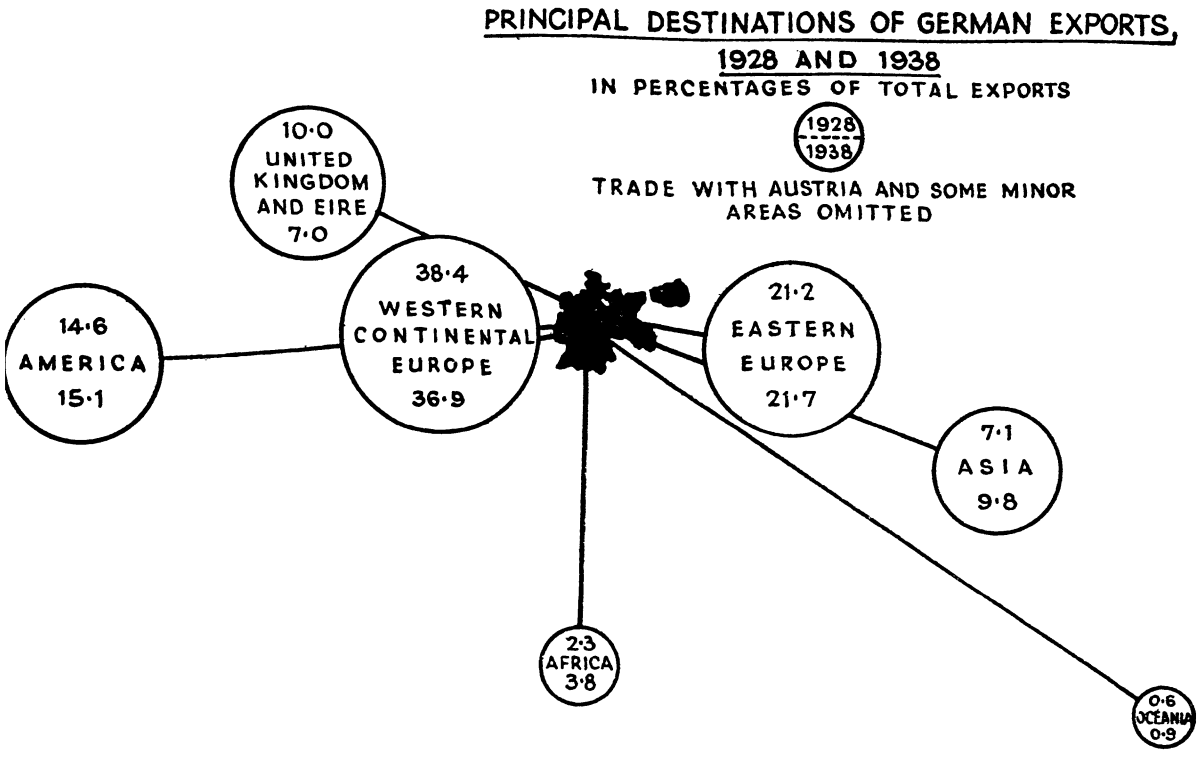
	Output in 1936	*1949 level*	*Percentage of pre-war capacity*
1. *Restricted Industries*			
(*a*) Passenger cars	245,000	40,000	16
(*a*) Pharmaceuticals	RM. 413 mn.	RM. 332 mn.	80
(*a*) Plastics and various chemicals	RM. 2,112 mn.	RM. 1,478 mn.	70
(*a*) Electrical power capacity	KW. 15·2 mn.	KW. 9·0 mn.	60
2. *Planned but not Restricted Industries*			
(*b*) Textiles and apparel	856,000 tons	665,000 tons, including 185,000 tons synthetic fibre	77
(*b*) Paper and printing	3,149,000 tons	2,129,000 tons	65
(*b*) Footwear	60 mn. pairs	113 mn. pairs	70

The significance in this connection of the year 1949 is that the output of the various industries was to be allowed to rise gradually towards the permitted levels, in such a way as to reach them by 1949. It was clearly contemplated that in the intervening period the actual production of German industries would be below the greatly reduced totals that were to be permitted to it under the Allied plan.

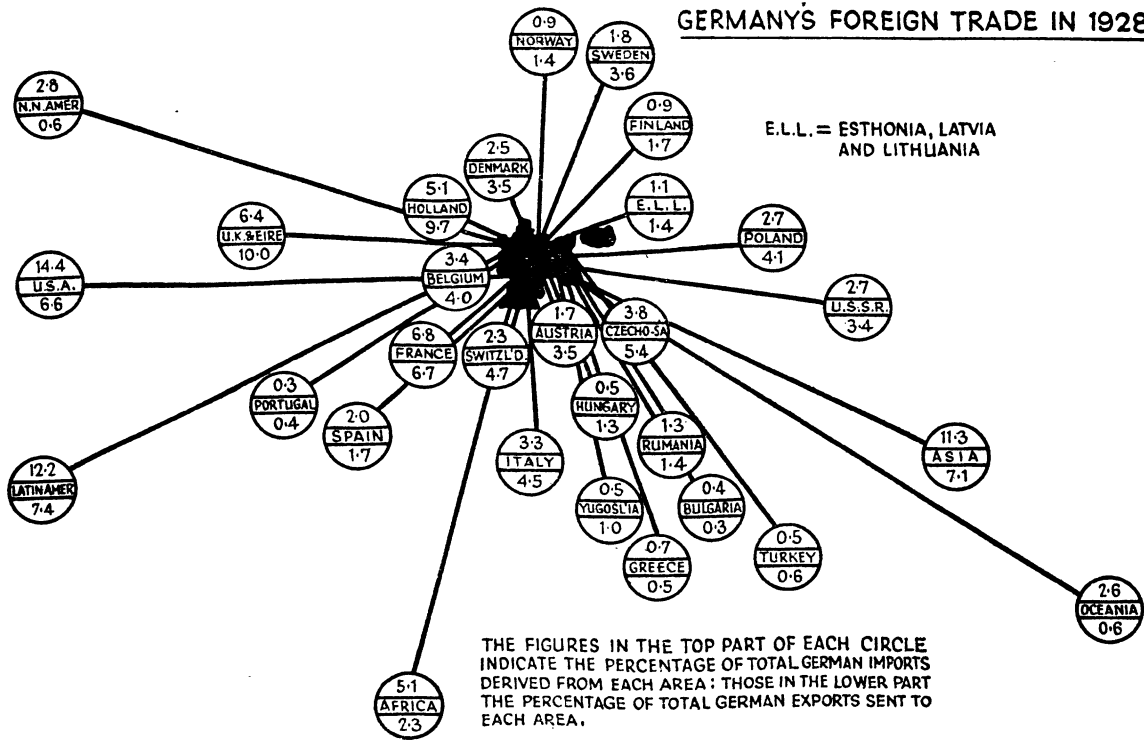
Last comes the group of industries to which no direct restrictions or 'planned' totals of output were applied. These include building materials (except cement) and woodwork, glass and pottery, bicycles and motor-bicycles of low power, and certain raw materials, among which are potash and coal. The output of these last was, indeed, meant to be expanded to the utmost—an intention which will certainly be frustrated unless the German food situation can be decisively improved.

German Exports and the Standard of Living

The general upshot of these decisions was to limit German industrial capacity, for a population estimated for 1949 at not more than 66,500,000 (a figure reached by guesswork or by sheer wishing), to roughly half the pre-war level, which was related to a population of about 70 millions. They therefore involved a very severe reduction in German standards of living, even on the most optimistic assumptions about the numbers to be provided for and


PRINCIPAL DESTINATIONS OF GERMAN EXPORTS,
1928 AND 1938
IN PERCENTAGES OF TOTAL EXPORTS
1928
1938
TRADE WITH AUSTRIA AND SOME MINOR AREAS OMITTED
10·0
UNITED KINGDOM AND EIRE
7·0
38·4
WESTERN CONTINENTAL EUROPE
36·9
14·6
AMERICA
15·1
21·2
EASTERN EUROPE
21·7
7·1
ASIA
9·8
2·3
AFRICA
3·8
0·6
OCEANIA
0·9

GERMANY'S FOREIGN TRADE IN 1928.



THE FIGURES IN THE TOP PART OF EACH CIRCLE INDICATE THE PERCENTAGE OF TOTAL GERMAN IMPORTS DERIVED FROM EACH AREA: THOSE IN THE LOWER PART THE PERCENTAGE OF TOTAL GERMAN EXPORTS SENT TO EACH AREA.

about the actual workability of the plan as a whole. They have to be considered in connection with the cognate decisions about the future of Germany's foreign trade. The Allied plan contemplated that by 1949 Germany would be exporting goods to a value of 3,000

(A) Principal Sources of German Imports, 1928 and 1938

(In millions of new gold dollars)

	1928	*1938*	*1928, per cent.*		*1938, per cent.*	
A. Europe						
(1) U.K. and Eire	362	117	6·4		5·25	
France	387	58	6·8		2·6	
Belgium	191	78	3·4		3·5	
Holland	287	80	5·1		3·6	
Switzerland	133	42	2·3		1·9	
Sweden	102	106	1·8		4·75	
Norway	49	40	0·9		1·8	
Denmark	142	67	2·5		3·2	
Italy	188	99	3·3		4·5	
Spain	112	37	2·0		1·66	
Portugal	15	10	0·26		0·45	
Other Western Europe	2	2	0·03		0·09	
	1,970	736	34·8		33·1	
(2) Czechoslovakia	217	52	3·8		2·3	
Austria	94	35	1·7		1·6	
	311	87	5·5		3·9	
(3) Bulgaria	21	34	0·37		1·5	
Yugoslavia	27	44	0·48		2·0	
Roumania	76	56	1·34	3·88	2·5	11·8
Hungary	29	44	0·51		2·0	
Turkey	29	47	0·51		2·1	
Greece	38	38	0·67		1·7	
Poland	152	44	2·68		2·0	
Esthonia, Latvia, Lithuania	62	38	1·1		1·7	
Finland	51	36	0·9		1·6	
Others	—	—	—		—	
	485	381	8·6		17·1	
B. Other Areas						
U.S.A.	817	163	14·4		7·3	
Rest of North America	160	38	2·8		1·7	
Latin America	692	360	12·2		16·2	
Africa	288	156	5·1		7·0	
Asia	641	255	11·3		11·5	
U.S.S.R.	153	19	2·7		0·85	
Oceania	146	27	2·6		1·2	
	2,897	1,018				
Total	5,663	2,222				

million reichmarks at the prices of 1936, and laid down the same figure as a maximum for German imports, with a proviso that any sum remaining after payment had been made for imports actually approved by the Control Council should be assigned to

(B) Principal Destinations of German Exports, 1928 and 1938

(In millions of new gold dollars)

	1928	*1938*	*1928, per cent.*	*1938, per cent.*
A. Europe				
(1) U.K. and Eire	484	152	10·0	7·0
France	325	88	6·7	4·1
Belgium	197	92	4·0	4·25
Holland	474	180	9·75	8·3
Switzerland	231	33	4·75	1·5
Sweden	174	107	3·6	5·0
Norway	68	50	8·5 { 1·4	11·0 { 2·3
Denmark	168	81	3·5	3·75
Italy	221	121	4·5	5·6
Spain	84	31	1·7	1·4
Portugal	20	16	1 { 0·4	2·1 { 0·7
Other Western Europe	5	2		
	2,451	1,083	50·4	50·1
(2) Czechoslovakia	261	55	5·4	2·5
Austria	172	47	3·5	2·2
	433	102	8·9	4·7
(3) Bulgaria	15	23		
Yugoslavia	48	48		
Roumania	70	60		
Hungary	62	44	5·1 {	13·0
Turkey	27	61		
Greece	24	45		
Poland	200	54		
Esthonia, Latvia, Lithuania	69	35		
Finland	86	33		
Others	2	1		
	603	404	12·4	18·7
B. Other Areas				
U.S.A.	321	60	6·6	2·75
Rest of North America	27	10	0·6	0·5
Latin America	360	257	7·4	11·9
Africa	113	82	2·3	3·8
Asia	346	211	7·1	9·8
U.S.S.R.	163	13	3·4	0·6
Oceania	31	20	0·6	0·9
Total	4,848	2,162	00	100

help pay for the costs of occupation. Approximately half of the sum allocated as a maximum for total imports was earmarked for imports of food and fodder. The figure of 3,000 million reichsmarks compares with an actual sum of 4,200 million reichsmarks paid for imports in 1936.

What did not appear was how Germany could possibly export goods to a 1936 value of 3,000 million reichsmarks in face of the restrictions imposed on future productive capacity. These restrictions, as we have seen, fell most heavily on the industries which provided before the war the main bulk of German exports. It was no doubt contemplated that the reduction in industrial output would release for export considerable quantities of coal; but on the most optimistic estimate, this could not go far towards filling the place of the metal goods and chemicals on which Germany had hitherto largely relied. The planned output of the textile industries, which was set at only 77 per cent. of the 1936 output, does not suggest that these can have been meant to fill the gap; and what else is there? Woodwork, pottery and glass, and not much more; but it is merely fantastic to suggest that the exports of these classes of goods could possibly be expanded enough to cover the cost of the foodstuffs which Germany will need to import, even if the standard of living is to be cut down, as was proposed, to the "European average."

In other words, the Allied plan did not make sense; and in all probability not one of the negotiators who drew it up ever supposed it did. That indeed was not its purpose, which was primarily that of determining at a high level the amount of industrial plant to be taken away as reparations, and only secondarily that of prescribing directly for the future of the German people. It seems certain that, in practice, the denudation of German industrial capacity in accordance with the terms of the plan could not leave the Germans in a position to achieve—or to get near to achieving—even the low standard of living for which the plan was supposed to provide.

It was laid down in the plan itself both that Germany should be left with enough capacity to achieve this standard, and that all Germany (apart from the areas annexed to Poland and the Soviet Union) should be treated as an economic whole. It was also assumed that Germany would be able to find markets for exports —despite the limitations, direct and indirect, on their character— up to the projected value, and that the population would not by 1949 exceed the total on which the plan was based. It was implicitly, though not explicitly, assumed that there would be no annexations of German territory in the West—that is to say, that

France would not get even the Saar, much less the Rhineland. If any or all of these assumptions turn out to be false, the figures included in the plan can be questioned; but it by no means follows that it will be easy for the powers to agree on their amendment. The Russians, at that stage, would have liked to impose even more drastic restrictions, and, though Mr. Molotov has since spoken of the possibility of amending them, no agreement has been reached on revision even if, as a consequence of the alienation of further key territories, the plan is rendered still more unworkable than it was from the start, or if a larger population had to be provided for, or again if it becomes evident that exports, within the terms of the plan, can not possibly approach the level laid down as necessary to cover Germany's import needs. Soviet policy in effect is likely to depend on a number of conditions that have much more to do with the state of world politics than with the economic needs of the German people.

The fact will almost certainly diverge greatly from the project. Nevertheless there the plan is, approved in all solemnity by the representatives of the great powers, and still serving nominally as a basis for calculating the industrial capacity to be removed from Germany as reparations, with a view to its re-installation elsewhere, or else destroyed as 'surplus' to Germany's admitted needs.

Conflicting Views of Germany's Industrial Future

In setting out from this conception of Germany's economic needs the Potsdam Conference was doubtless actuated by a mixture of prudential and punitive considerations. If the aim had been merely prudential, the Conference would evidently have begun by enquiring *how little* interference in Germany's economic life would be enough effectively to prevent the recrudescence of German military power in any form that might constitute a threat to the world's peace. Provided that this could be achieved, the aim would have been to secure from Germany the largest possible contribution to world development and prosperity, and accordingly to make the greatest possible use of German industrial resources, including the high skill and technical capacity of the German people. It is abundantly clear that the problem of Germany's future was not approached at Potsdam from any point of view even remotely resembling this. The British delegates do appear in the first instance to have regarded it partly from this point of view; but the main effect of their doing so was to engender suspicion in the minds of the Russians that they might be designing to build up Germany, or at any rate Western Germany, into a potential arsenal or source of supplies for a future attack on the

Soviet Union. The Russians clearly approached the problem from a totally different angle. Having suffered immense devastation and destruction of industrial resources at the hands of the Germans, their main object was to secure, in the form of reparations, the largest possible quantity of German industrial plant for use in rebuilding their own economic life. This, and fear of the West, rather than a desire to punish the Germans, were the prevailing considerations in the minds of the Russians; and they led to a wish to insist on a low standard of living in Germany because this would both release most plant for seizure as reparations and prevent any rebuilding of German industrial power in association with the Western countries. This attitude explains the apparent paradox of Russian policy, which combined a greater willingness to grant rights of self-government than was shown in the Western zones with a greater ruthlessness in despoiling Germany of its basic equipment. Moreover, the wide gap between standards of living in Western and in Eastern Europe made for sharp differences in attitude. The Western countries, used to the idea of Germany as an advanced industrial State and to that of a minimum standard of living based on long practice of advanced industrial and agricultural techniques, thought instinctively of the German people as entitled, apart from punishment for 'war guilt,' to a standard of living not greatly different from their own, whereas the Russians, thinking in terms of the much lower standards prevalent in Eastern Europe, asked why the German people should be allowed to live better than the Eastern neighbours upon whom Germany had wantonly inflicted such grievous wrongs, and saw nothing amiss in a proposal to assimilate German living standards to those of Eastern, rather than to those of Western, Europe. The outcome of this conflict of attitudes was the compromise which prescribed for Germany a standard equal to the average of East and West, leaving out on the one hand the United Kingdom and on the other the Soviet Union itself—probably because the standard of the Soviet Union would have been very difficult to ascertain, and, if it had to be omitted on one side of the account, it seemed best to balance the omission by leaving out the United Kingdom, with its much higher standard, on the other.

Germany and the Rest of Europe

It is easy to understand the feeling in the Soviet Union both that the Germans owe the fullest reparation that can be exacted from them towards rebuilding the shattered economic structure of Russia and the Ukraine and that there is no reason why the

Germans, having been responsible for so much sheer wickedness and mischief, should be allowed to maintain a standard of living superior to that of their victims. But the question cannot be reasonably settled on the basis of these considerations alone. There is also the problem of the effects which the destruction of Germany's industrial capacity is likely to have on the future of Europe as a whole, and in particular on the poorer parts of Europe. The Russians can, no doubt, find good uses in the Soviet Union for all the plant they are able to remove from Germany on reparations account; and when they have removed as much as they can, they will be still very much worse equipped than they would have been if the Nazis had not overrun their territory and destroyed as much of its productive capacity as they could. This may seem to the Russians to give an unanswerable foundation of justice to their claims for reparations at the highest practicable level, and at the cost of a low German standard of living. The position, however, cannot look quite the same to anyone who is thinking in terms of Europe, or even of Eastern Europe, as a whole—even apart from the fact that the attempt to put the Potsdam principles into effect has involved Great Britain and the United States in spending large sums on keeping the German people alive, and has thus meant in effect that the victors have been paying 'reparations' to Germany instead of receiving them. The Germans, however, so far from prospering under these conditions, have been reduced to as deep a state of misery as even their most vindictive enemy could desire.

Nor must we forget that from the standpoint of the predominantly peasant countries of Eastern Europe, Germany is important quite as much as a market as it is as a supplier of industrial exports, or that, even as a supplier of exports, particularly capital goods in exchange for primary products, it is not easy to see how it can be replaced. The economy of these countries has hitherto been based to a considerable extent—and the tendency was intensified during the years of German economic expansion before 1939—on exporting primary products, agricultural and mineral, to the German market and on receiving in exchange, and also to some extent on credit, German manufactures of both capital goods and consumers' goods. If, as a consequence of the reduction of German industrial capacity, particularly in respect of capital goods, the Germans are able to do little to supply the needs of Eastern Europe for new capital equipment, and if, in accordance with the Potsdam decisions, Germany is forced to reduce imports and to live to a greater extent on home-produced agricultural products, whence are the countries of Eastern Europe to get the

machinery and the other goods they must have as a basis for their own economic development, and where are they to find alternative markets for the primary products on which they depend for their ability to pay for such imports as are not supplied to them on credit?

There are several possible answers to this question; but none of them is in the least satisfactory. The first possible answer is that the Russians, having acquired the German industrial plant, will be in a position to supply capital goods to Eastern Europe, in addition to rebuilding and expanding their own industrial capacity. But is this likely, at all events in any near future? The Russians, having lost more productive capacity than they can possibly hope to get from Germany, will require all they get—and much more—for meeting the urgent demands of their own economy, and will for a considerable time have little to spare for helping other backward countries to restore or develop their economic structures. Moreover, it seems improbable that for some time to come the Soviet Union can furnish a good market for most of the primary products of its East European neighbours. The imports which the Russians most urgently want are not such as these mainly peasant countries can supply. There will no doubt be outlets in the Soviet Union for mineral products from South-eastern Europe; but these cannot go far towards enabling the peasant countries to supply themselves with the imports they stand in need of. *In the long run*, very likely, these conditions will be altered, and the Soviet Union may come to have both a surplus of capital goods available for export and a need to import agricultural as well as mineral products from neighbouring States. But it is a bleak prospect for the peasants of Eastern Europe if they are simply to wait for this situation to arise. Their export markets are already dislocated and their entire economic structure is already in the grossest disorder, with disastrous reactions on their standards of living in town and country alike. If there is help to be had soon from any quarter, they can by no means afford to wait in destitution for an indefinite period until the Russians are ready to give them large-scale aid.

The second possible answer is that Germany is to be replaced as both supplier and market of the countries of Eastern Europe by the other industrially developed countries of the West, and particularly by the United States, which alone has the ability to grant them, in the near future, large-scale credits. But is this answer any more satisfactory than the other? The more credits the Americans are prepared to grant to these countries the better, provided that they are granted on tolerable conditions—a proviso to which we

shall have to come back in a moment. But credits are hardly likely to be granted, on any terms, except where there is a prospect of the interest at any rate being paid and of the credits being used to foster mutual commercial relations which will result in an increasing interchange of goods and services, and will thus improve the prospects of repayment, in the long run, of the principal as well. Is it likely that the peasant countries will be able, even if they are given credits for capital development, to find in the United States or in Western Europe markets for their primary products to replace the German market? They will be able to do this, in practice, only to the extent of their ability to sell at world prices in competition with the lower-cost, because more efficient, producers of the more advanced countries; and it was precisely this type of competition that they were seeking to escape from between the wars, and that was ruinous to their peasant cultivators. That was why they fell in eagerly with Nazi economic projects which gave them assured markets, often at prices substantially above world prices; and they cannot be expected to display any enthusiasm for proposals which involve a return to the pre-war conditions with the further adverse factor added that the Germans will no longer be in a position to buy, even at world prices. Yet it is too unlikely to be worth discussing that the Americans will be ready to receive East European produce at a price higher than the world price, or that the countries of Western Europe, which are nearly all faced with very difficult balance-of-payments problems, will open their markets to East European producers on any preferential terms.

The third possible answer is that, unfortunate as it may be for the countries of Eastern Europe to lose the German market, there is nothing that can be done for them, and they must be left to reconstruct their economies as best they can without it, and without any other market or source of supply to take its place. To accept this solution would be not merely to perpetuate the existing primary poverty in Eastern Europe, but to acquiesce in making it a great deal worse than it has been hitherto; for rising population, pressing more intensely on the land, will inevitably cause further deterioration unless remedial measures are applied.

The Political Factors in the German Problem

The case for retrieving and developing the German economy both as a market and as a means of supply for the backward areas of Europe would appear overwhelmingly strong were it not for the political factors. If Germany is denuded of industrial plant to such an extent as to destroy German power to export capital goods, the

removed plant will doubtless aid the restoration of the devastated areas of the Soviet Union. But the loss to Europe as a whole will be lasting. If there were no political obstacles in the way, the natural course would be for the Russians to get, mainly from America, the machinery which they need for reconstructing their industries. America could easily supply what is wanted, and indeed needs the market for its own industries producing capital goods. It could easily supply the goods on credit, on the security of Russia's rapidly advancing productive power. But, when the Russians asked for a big American loan with this end in view, it was speedily made plain to them that, on political grounds, no loan would be forthcoming except on terms which, equally on political grounds, they could not possibly accept. The refusal of loans by the United States reacted on the Soviet Union's policy towards Germany, by making the Russians more intent on securing, as reparations, the machinery they could not get on credit from America. The Americans, having refused aid to Russia, were the more intent on finding in the other countries of Eastern Europe outlets for the products of their mechanical industries; but here again political considerations barred the way, because the Americans wanted in these countries Governments which could be relied on to give their backing to capitalistic private enterprise, whereas the Russians regarded American support of the parties from which such Governments might emerge as counter-revolutionary manœuvring directed against their own régime.

American Policy towards Germany

When the Americans came to formulate their own German policy, it was soon plain that powerful rival tendencies existed in the United States. One simple view was that the elimination of German industrial competition would open the door wide to American export industries, and should therefore be pressed as far as possible in the interests of American penetration of world markets. It must not be forgotten that the first project for the 'pastoralisation' of Germany, often called the 'Morgenthau Plan,' was put forward in the United States, and by a leading member of the American Government. As against this, another section of American opinion undoubtedly favoured the building up of Western Germany as a factor in the European balance of economic power against the Soviet Union. At the discussions which followed the Potsdam Conference the American representatives spoke with two voices—now siding with the Soviet Union against Great Britain in favour of drastic destruction of German industrial capacity, and now joining the British against

the Soviet Union in urging more liberal treatment, including a steady insistence, in both moods, that Germany ought to be treated as a single whole and that control ought as speedily as possible to be so limited and German administration so restored as to allow a rapid reduction in the numbers of the occupying armies.

Of course, part of the trouble was that, if what was aimed at was a speedy withdrawal of the forces of occupation and a leaving of the Germans to their own devices, this object was much easier to reconcile with a great initial destruction of German industrial capacity than with an attempt to render German industry harmless for war without impairing its capacity to serve the needs of the world. The greater the capacity for producing metals and metal products Germany was to be allowed to keep, the greater evidently would be the need for supervision of the German economy in order to prevent the misuse of this capacity for clandestine war preparations. Thus, the desire of the Americans to get out as soon as they could reinforced the desire of certain American industrialists to cripple a formidable competitor in the world market, and swung the Americans to the side of drastic limitation of Germany's permitted industrial production. But the swing was only partial, for there were also important American interests which had capital investments in Germany, and thought of Germany as a possible base for American-owned enterprises working for the European market.

The French Attitude

The French, as we have seen, were not represented at Potsdam; but they were parties to the subsequent discussions at which the implications of the Potsdam Agreements were worked out. The French had, throughout, a point of view of their own. So far from wishing Germany to be treated as a single economic unit, they were set, not only on annexing the Saar, over which they had been granted a temporary control after the first World War, but also on detaching the Rhineland and the Ruhr from the rest of Germany, in such a way as to divorce the productive resources of these areas from the German economy. The Rhineland some Frenchmen wished to annex and to incorporate in the French State, whereas others thought in terms of making it a separate State, under French, or perhaps under some sort of international, tutelage. The Ruhr it was not proposed by anyone who mattered to annex to France; but the French leaders did mostly demand its permanent severance from the German State, and its reconstitution

under international control, its resources—above all, its coal—to be used to meet the common needs of Europe. France, thrice overrun by the Germans, aimed at removing the German menace, not by 'pastoralisation' of the whole country but by permanent severance from the rest of Germany of the one area which was capable of serving as an effective basis for a renewal of German militarism under the conditions of modern warfare.

This French attitude was fiercely opposed by the Russians, who saw in it a plan, not for the demilitarisation of the Ruhr, but for the erection of it into a potential arsenal of Western capitalism for a future onslaught on the Soviet Union. It was opposed in addition by the representatives of the United States and of Great Britain, who aimed at treating Germany as an economic and political whole, and doubted the practicability of keeping the Ruhr detached from the rest of Germany except by permanent force, which would involve the maintenance of a large permanent army of occupation. The decisions reached at Potsdam, without French participation, had indeed already prejudged the question against making the Ruhr a great exporting area, except for coal; for the Ruhr could not be built up for the supply of Europe on the basis of the exiguous capacity for heavy industry which it was to be allowed to retain. Moreover, the Potsdam decision in favour of treating all Germany, except the areas already detached in the East, as a single unit implied that the Ruhr and the Rhineland were not to be severed. When the French were tardily brought into the discussions as partners in the occupation of Germany, with an equal concern in its future, these decisions of the Potsdam Conference necessarily came again into question. But the Russians, who had on the whole got their way at Potsdam, were by no means prepared to have the whole question again thrown open; and the Potsdam decisions nominally stood, though their workability—to say nothing of their wisdom—came to appear more and more doubtful at every attempt to apply them by working out their implications on particular points.

The Frontiers and Industry

Indeed, it soon became obvious that the amount of industrial capacity needed to maintain any given standard of living in Germany could not really be ascertained until the new frontiers of the country had been definitely fixed, and until it was known how many people would have to subsist inside them. This second consideration was relevant, because any further annexations might

involve additional transfers of population to a reduced German State, and also because the capacity of the Ruhr to maintain population was bound to depend on the amount and character of industry that it was allowed to retain. Yet nothing could be determined on these vital points because there was no agreement upon them; and the Potsdam decisions had to stand, at least nominally, because there was no agreed basis on which they could be revised.

The future of the Ruhr—and, less essentially, of the Rhineland—thus became entangled with the entire problem of the relations, political as well as economic, between Eastern and Western Europe. The Russians were set on destroying the Ruhr's industries, while of course leaving its great coal industry in being, for no one wants to prevent the Ruhr miners from producing all the coal they can—so clearly indispensable is the Ruhr coal to European industry, wherever the industries that make use of it for further production may be placed. The Russians wanted to destroy the Ruhr industries, partly because they wanted to carry away all the plant they could to the Soviet Union, and partly because they wished to weaken the military potential of a Western Europe which they profoundly mistrusted. The French wanted, not to destroy the Ruhr, unless they failed in their purpose of severing it from the rest of Germany, but to place it under an international control which would make it, among other things, a source of coal supply for French industries in Lorraine and perhaps in the Rhineland, should that area be annexed to France. The British wanted to leave the Ruhr with enough productive capacity to help the rest of Germany in paying for necessary imports, including those needed for the support of the armies of occupation; and they feared that, if the Ruhr were to be either destroyed as an industrial producer or restricted mainly to mining, there would be no means of preventing the maintenance of the German people, as well as the costs of occupation, from remaining a heavy burden on the British taxpayers, and from imposing an additional strain, that could ill be endured, on the British balance of payments. The Americans havered, favouring now one solution of the problem and now another, and throwing on the disagreements of their co-partners the blame for their own indecision and want of any clear constructive policy. And, finally, overshadowing the whole discussion was the clash of political ideologies, with the Russians everywhere suspecting capitalist plots against the Soviet Union, and at any rate some Americans and a few British people making or proposing exactly the war-mongering manœuvres which the Russians took as justifications of their fears.

The Zones of Occupation

All these discussions took place, not in a vacuum, but in presence of the disoriented, neurotic, underfed, occupied German people. They made the zones of occupation, which had been designed originally as purely military areas, into separate regions of political influence and conflicting economic and political policies. It had been contemplated that there should be, at the earliest possible moment, the fullest freedom of trade between the zones, in order that the various parts of Germany might exchange surpluses for their mutual benefit. This intention implied the speedy restoration of easy communication between the zones, as well as of personal intercourse and unified forms of social, economic and political organisation. In part, it was frustrated by sheer shortage of the means of transport, and also by the fact that, over all Germany, it was much easier to find deficits needing to be made good than surpluses available to be exchanged. But, over and above this, it was prevented by political differences and by economic frictions. The Russians carried into their zone of occupation their own political conceptions. They were ruthless in extirpating Nazi influences both from public life and from private business, and were fully prepared to carry this policy to the point of temporarily destroying the efficiency of public and business administrative machines. On the other hand, this policy compelled them to proceed rapidly with the improvisation of alternative agencies of government and business control, which they placed, wherever they could, in the hands of persons well affected to the Soviet Union. This led them to give large recognition to the German Communist Party and, as this party by itself was clearly not enough to give them a sufficient basis of support, to press for the unification of German Socialism under Communist leadership in a single party claiming to stand for the entire German working class. The Socialist Unity Party formed under this pressure failed, however, to secure the allegiance of a large body of Social Democrats in Eastern Germany; and Berlin became a centre of struggle between the rival Socialist groups. At the same time, on the economic plane, the Russians pursued ruthlessly their own ideas of reparations and war booty, denuding their zone of occupation of livestock as well as of industrial plant for the replenishment of the devastated areas of the Soviet Union.

In the American zone, policy was quite different. The Americans carried into Germany their zeal for the extirpation of monopoly—especially of monopoly under foreign control. They began zealously breaking up I.G. Farben and other great German cartel enterprises—and of course no less zealously collecting their

trade secrets and patent processes for the benefit of American industrialists. At the same time a section of American industrialists began to canvass the idea of buying up German industries and reorganising them as subsidiaries of the great American undertakings. Politically, the Americans' attitude was dominated by the desire rapidly to reduce the size of their occupying army; and this led them to follow an active policy of transferring administration to German hands. But, whereas the Russians built on the Communist Party, the Americans, occupying a largely Catholic zone and hostile to all forms of Socialism, tended to build their political structure rather on the foundation of the Catholic Church and its political affiliates—with the necessary consequence of creating a new structure strongly antagonistic to Communism and to the Soviet Union.

In the British zone, yet a third policy was being followed—if indeed it could be called a policy in any constructive sense. The British went much less far than either the Russians or even the Americans in expelling Nazi sympathisers from administrative positions, especially in private business, and much less far also in handing over discretionary functions and powers to Germans. This was because they did not select any particular element of the German people to use as their agents, and were very slow in allowing any re-emergence at all of political activity, or even of Trade Unionism or other forms of popular economic organisation. The British attempted to govern their zone of occupation "non-politically"—which meant in fact governing it militarily, and mainly through soldiers who were not selected at all on grounds of political competence, or as likely to encourage the growth of democratic political attitudes among the Germans with whom they had to deal. The result of this policy was to leave a political vacuum; and indeed, it was in some respects worse than this, for in refusing to select German collaborators on political grounds, the politically unguided British authorities on the spot were induced to select on grounds of apparent competence or even of 'gentlemanliness' irrespective of attitude, and this often meant leaving in positions of authority, except at the very top, Nazis or near-Nazis, because they appeared best to understand the details of administration, or to be technically the most competent persons available for the key positions in industry, or because they knew best how to make themselves accommodating to the occupying authorities.

The 'Non-Political' Illusion

This disastrous 'non-political' approach to the problem was doubtless partly due to the tendency, very marked in home affairs

in Great Britain, to believe in the impartiality and sense of duty of the 'non-political' Civil Servant, and to think of the tasks of administration as needing to be carried out, not by partisans of any -ism or opinion, but by officials judicial enough to implement any policy laid down for them by their political superiors. It was forgotten both that the working of this theory in British government depends on the presence in office of political superiors who do stand for a definite point of view, and issue instructions based on that point of view, and also that, even if a supply of impartial administrators could be relied on under the political conditions of Great Britain, their presence would have been a misfit in a society just emerging from a period of Nazi rule. At any rate, the absence of political guidance resulted in each officer being left to deal with the Germans with whom his duties brought him into contact largely according to his own bent, with the reservation that anything that suggested that he was "taking sides" was likely to call down on him the disapproval of his military superiors, and that the line of least resistance was usually that of leaving existing German officials and business managers undisturbed, unless they had been particularly notorious Nazis.

One effect of the British attitude was to give practically no encouragement to the growth of democratic political forces in the British zone of occupation, and in particular to set the German Social Democrats who were seeking to bring about such a revival an exceedingly difficult task. In the Russian zone, and in Berlin, where the four occupying powers had each its zone of control, the Russians were giving full support to the German Communists in their attempt to create a unified German Socialist Party under Communist leadership; and the propaganda in favour of this unification necessarily lapped over into the British zone, and was reinforced by taking on the guise of propaganda for German unity and the reassertion of German national independence. When, very late in the day, under pressure from British Socialist opinion, the British authorities in Germany began to give some hesitating encouragement to the German Social Democrats, this gesture, instead of appearing as a spontaneous move to enlist German democratic sentiment on the side of German reconstruction, had all the look of a defensive manœuvre against Russian influence, and thereby forfeited much of its potential effect.

The Weakness of British Policy

No doubt, the British were in a difficulty because much less than the Russians or even the Americans had they any clear notion of what they were attempting to do. They were standing in

theory for the principle of uniform treatment of Germany and of unified action in all the zones of occupation. But, powerless to give practical effect to this policy, they had no policy on which to fall back in handling the sectional problems of the British zone. This, however, is an altogether inadequate explanation of the negative British attitude. The plain fact is that the British Socialist Government had made up to the end of 1946 no attempt to rebuild the British zone on a foundation of democratic Socialism, whereas the Russians were doing their best to impress a Communist character on the new institutions of their zone, and the Americans to rebuild their part of Southern Germany on the foundations of their conception of capitalist democracy. Yet it was abundantly plain that such potentially democratic elements as existed in Germany after the Nazi collapse were almost pathetically eager to be given a lead, and that failure to give a democratic Socialist lead was bound to drive men either towards Communism or towards reactionary nationalism in default of any other rallying point.

Unification of British and American Zones

This was the situation, when near the end of 1946, the British and Americans agreed on an economic unification of their several zones. To the British, this was a welcome relief, both because it carried with it some promise of an improvement of the deplorable food situation in the British zone, and because the equal sharing of the costs of the two zones promised some reduction in the heavy expense in dollars which the British had been meeting in respect of the deficit on their zone, which was the costliest to maintain. There were fears that unification might mean the imposition of American economic policy throughout the combined zone, and might stand in the way of the carrying out of the policy, more than once announced by the British Government, of nationalising the whole of the heavy industries in the British zone and vesting them in trustees, to be held on behalf of a future democratic German Government. It was, however, announced at the end of 1946 that this policy was to be persisted in despite the unification, and despite the evident unlikelihood of the Americans following a similar policy in their part of the combined zone—even though they declared their readiness to accept nationalisation, provided that it was carried through by democratic consent.

The French Zone

The French refused to bring their zone into the arrangements for unification. This was partly because they were opposed to the recognition of any sort of united Germany until the question of

the Western frontier had been settled, and partly because a good many Frenchmen still hankered after a solution based on the separation of Southern Germany from the rest. The French, with characteristic 'frugality,' managed to run their zone at no cost to themselves, and therefore stood to lose by unification. They were, moreover, determined to annex the Saar area, or at any rate to detach it from Germany and place it permanently under French control; and at the beginning of 1947 they set up customs barriers between the Saar and the rest of their own zone of occupation. This 'rest' consists of one 'Land,' or State, the Rhenish Palatinate, and of two Provinces—the parts of Wurtemberg and of Baden that are under French control. As for the Ruhr, the French seemed still set on opposing any plan that would allow a German industrial revival unless it were to be accompanied by measures which would amount to a break-up of Germany. French long-run policy, however, remained unpredictable at the beginning of 1947 because of the sheer instability of the French political situation as a whole.

The Problem of German Unity

We have seen that the Potsdam Agreements, while they excluded for the time being the setting up of any central Government for Germany as a whole, did contemplate the treatment of the whole country up to the new eastern frontier as a single economic unit and also the establishment of central administrative departments covering the entire area. Up to the end of 1946 neither of these provisions had been put into effect. The French were primarily responsible for vetoing any unification, on the ground that this would prejudice their claims for annexations of German territory in the west and for the separation of the Ruhr from the rest of Germany; and it seems clear that the Russians were in no hurry for a unification which, among other things, might have involved large food deliveries from their zone to Western and Southern Germany. Nor had much advance been made up to the end of 1946 towards the declared Potsdam policy of building up democratic self-government in the new Germany on a local and regional basis in advance of any attempt to establish a central German Government. The Americans had gone furthest towards this, by holding, in their zone, elections first for the smaller rural and market town authorities, then for the councils of the larger towns, and then for the three separate 'Lands,' or States, into which they had divided their part of Southern Germany. The Americans also created at a fairly early stage a German Zonal Council to co-ordinate action over their

zone as a whole. The three 'States' into which the Americans have divided their zone are Bavaria, Greater Hesse, and Wurtemburg-Baden—this last an artificial unity because the southern parts of the two old German 'Lands' included in it are severed from the northern halves and are in the French zone. Each of these American-made 'States' has now a German-made constitution of its own. In Bavaria, and in Wurtemburg-Baden, Catholic influence is strong, whereas in Greater Hesse the Social Democrats are the strongest party; in all three, the Germans have much greater actual power than in either the British or the French zone. The American personnel in the zone, civil as well as military, has been greatly reduced—largely because the Americans are above most things anxious to get home.

In the British zone, progress towards self-government, and even towards any delegation of real powers to German nationals, was immensely slower, and the rate of development was allowed, to a quite startling extent, to be determined by the military authorities. A nominated Zonal Advisory Council, and also a nominated Economic Advisory Board, composed of Germans, were set up in March 1946, but were given no powers. Even local government elections were not held until the autumn of 1946, and the division of the zone into 'Lands' was not completed until nearly the end of that year, after which 'Land' Governments were to be set up to prepare Constitutions for the separate 'Lands,' on the analogy of what had been done much sooner in the American zone. There emerged from the admistrative reorganisation of October, 1946, a division of the British zone into three 'Lands' and two 'Free Cities'—Hamburg and Bremen. One of the 'Lands'—North Rhineland and Westphalia—had been so formed as to include the whole of the Ruhr industrial area: the others were Schleswig-Holstein and Lower Saxony, which incorporated Hanover, Brunswick and Oldenburg. This left in the zone a few small areas of which the status was still unsettled at the beginning of 1947. The local elections of October 1946 showed Social Democrats and Christian Democrats fairly evenly balanced, with the Communists a very long way behind and a large number of small parties also in the field. It had by this time become manifest that the Communist bid to win over the main body of the workers in Western Germany to the Socialist Unity Party, which it had forced into existence in the Soviet zone, had failed, and that the Social Democrats were more than holding their own, despite the charge, often flung at them, of being the 'stooges' of Great Britain. Meanwhile, the Ruhr coal-mines were taken over by the British as trustees for a future German Government in

December 1945, and the same process was applied to the steel industry in August 1946. Further impending measures of socialisation were announced in December 1946, when the unification of the British and American zones was on the point of coming into effect, but no further positive action was taken at the time.

Elections in Berlin in October 1946, covering the areas occupied by all four powers, resulted in a heavy setback for the Communist-sponsored Socialist Unity Party, which polled only about 20 per cent. of the votes, as against about 50 per cent. for those Social Democrats who had rejected fusion with the Communist Party. Even in the Soviet zone of Germany the Socialist Unity Party, despite its strong Russian backing, did not poll quite half the votes, though it emerged as much the strongest party. In the Soviet zone there were no Social Democratic candidates, the dissident Social Democrats not being allowed to exist as a party after the fusion with the Communists. The Soviet zone consisted at the end of 1946 of three autonomous 'Lands'—Saxony, Mecklenburg, and Thuringia—and two Provinces—Brandenburg and Prussian Saxony. The Communists, of course, were not in a position to enforce in the greater part of Berlin, which was jointly occupied, the policy of Socialist Unity which they were in a position to force through in the main Soviet zone of occupation.

One most important effect on the creation of the various 'Lands' in the separate zones of occupation was the dissolution of Prussia, the old centre of German militarism and Junker aristocracy. Prussia, by far the largest of the old German 'Lands,' in effect disappeared, parts of it into the enlarged Poland and into the Soviet Union (Northern East Prussia) and other parts into separate 'Lands' set up in the Russian, British, American and French zones. These new administrative areas, if they are to be regarded as foreshadowing permanent 'States' of the new Germany, will give a much more balanced grouping than was possible as long as Prussia remained a unified State within the German Reich.

The Refugees

A great complicating factor—to give it no harder name—was that of the redistribution of population made necessary by actual and expected expulsions and flights of Germans from the annexed areas in the east, and also from Czechoslovakia and Hungary, into the narrowed space of the new Germany. The loss of German territory in the east amounted to almost one-fifth of the total area of the pre-Nazi *Reich*, including about a quarter of the total arable

area and between a sixth and a seventh of the total population. In November, 1945, the Control Council estimated that, in addition to those who had already fled from the annexed areas—put at roughly 5 millions—provision would have to be made for the reception into the new Germany of about 6,500,000 further refugees. These were made up of 3,500,000 from Poland, 2,500,000 from Czechoslovakia, and 500,000 from Hungary. The British zone was due to receive, as part of this total, 1,500,000 expelled Germans from Poland; the American zone was to take 1,750,000 Germans from Czechoslovakia, and the Soviet zone was to take from both these countries a total of 2,750,000. The problem, owing to the acute food shortage, was peculiarly difficult for the authorities in the British zone, who had no means of feeding with even the barest adequacy the population already there, which included numerous displaced persons and refugees in addition to the original inhabitants. Something was in fact done to slow down the incursion of these further hordes of hungry and for the most part destitute persons, especially from Czechoslovakia and Hungary; but constant arrivals from Poland presented the zonal authorities with terribly difficult problems, and by the end of 1946 it looked as if the final population of the reduced new Germany would considerably exceed the total taken as a basis for estimating the industrial equipment needed in order to enable the German people to live at an "average European standard of life." The trouble was aggravated because in fact no redistribution of foodstuffs from the eastern part of Germany was accompanying the expulsion of Germans from the annexed areas, and almost nothing was being done to make possible the movement even of non-food goods by way of inter-zonal trade. These were the reasons advanced by the Americans when, at the Paris Conference of 1946, they announced their intention of suspending further reparations deliveries of plant from their zone to the Russians, in the hope of forcing an agreement about the unified treatment of the whole German problem.

I have purposely set down these facts coldly, without any reference to the enormous mass of human suffering that lies behind them. Under the most favourable conditions, the forcible transfer of populations running into many millions could not take place without much suffering and dislocation. Under the conditions of acute food shortage and collapse of the German industrial system which existed in 1946, when the transfers were being made, these sufferings were bound to be immensely aggravated, even if there had been no element of hatred and deliberate punishment to be reckoned with. That this element was strong made the

horror of the whole affair very much greater than it would otherwise have been.

Apart from the immediate horror of the move, where were these refugees to find homes in the shattered areas of Western Germany in particular, and how were they to be enabled to support themselves so as not to become an intolerable burden on the existing inhabitants, or on the occupying powers? The drastic scaling down of German industry meant a narrowing—a very great narrowing—of the openings for industrial employment, which was also temporarily further reduced by dislocation of markets and by shortage of necessary materials. There was no free land which the new settlers could occupy in a country which was for the most part already cultivated with considerable intensity. The new population necessarily constituted for the most part a problem of more mouths to be fed rather than a valued addition to the productive power of the receiving country. Under these circumstances, the settlers were bound to be unwelcome to the existing populations of the districts to which they were sent, as well as a burden to the authorities who had to feed and to provide for them. The full ugliness of the Potsdam decisions gradually made itself plain; and the German problem, bad at best, looked worse and worse as more refugees continued to pour in, and there was still no basis of agreement among the occupying powers about the future of Germany as a whole, or about the 'whole' that was to be the new Germany—for the fate of the western frontier remained a matter of unresolved dispute.

Frontiers and Outputs

The central problem, as we have seen already, was that of the Ruhr. Or rather, there were two intertwined problems—that of the future relationship of the Ruhr to the new Germany, and that of the amount and type of production that was to be allowed. Obviously, the sensible course would have been to decide first what the political fate and the future status of the Ruhr area was to be, and then, in the light of this decision, to settle what industries it should have and for what markets they should work. Unhappily, the problem was tackled the other way round. At Potsdam, the British, Americans and Russians, in the absence of the French, appear to have assumed that the Ruhr was to form part of the new Germany which, it was agreed, should be treated as a single economic unit. This, however, was only assumed: it was not decided: it could not be decided in the absence of France from the Conference. It was, however, decided, on the basis of this unsettled assumption, to apply to the Ruhr the drastic

scaling-down of German industrial capacity; and the subsequent discussions, resting on the Potsdam decisions, fixed the future steel output of Germany, including the Ruhr, at the extraordinarily low level that has been mentioned earlier in this chapter. This, as we have seen, prejudged the issue of the future use of the Ruhr; for the decisions, if they were carried out, meant that the area could no longer play any important part as a supplier of Europe with capital goods, or even of steel for making such goods elsewhere. In effect, it meant that the Ruhr was to become mainly a coalfield working for export—but even this it could not be while the workers in it were kept on a starvation diet, with neither the physique nor the spirit to do a good day's work.

The French, however, did not accept the Potsdam decision, implied rather than definitely stated, that there were to be no important revisions of Germany's frontiers in the West, and that the Ruhr was to remain, both politically and economically, an integral part of the new German State. They continued to hanker after its detachment from Germany, including political severance as well as international control of its economic use. On both these points they met with opposition from the three Potsdam powers; and in retaliation they vetoed any attempt to set up a central German administration to unify the various zones of occupation. At a late stage Mr. Bevin, while he continued to declare against any political severance of the Ruhr from the rest of Germany, stated that he was not hostile to international control of its economic life; and M. Gouin, then Socialist Prime Minister of France, responded with a speech which seemed to offer prospects of agreement between Great Britain and France on this basis. M. Gouin, however, was at once repudiated by a majority of his Coalition Cabinet; and it has of course to be borne in mind that Anglo-French agreement would not necessarily command either American or Russian consent.

The Control of the Ruhr

Nevertheless, international control of the Ruhr does surely hold out much the best prospect of a tolerable settlement of the German problem; and there does not seem to be any valid reason why the British and the French should not be able to come to an agreement on a plan which, without severing the Ruhr irrevocably from the German *Reich*, would provide not only for economic control under international auspices, but also, temporarily, for distinct political administration. The Russians and the Americans might not, at first sight, like such a scheme; but, if it proves

impossible to reach a generally agreed plan for the future of Germany, the responsibility for deciding what to do in the Ruhr must fall mainly on Great Britain as the occupying power—just as the main responsibility for deciding what to do in their zones falls on the Americans, the French and the Russians. This remains true even after the British and American zones have been economically unified; for this limited unification has not determined what their future is to be. If the question cannot be settled by agreement, it must nevertheless be settled somehow: it cannot be left hanging indefinitely without any decision at all. The British, if they could find a basis for agreement with the French, could still in the last resort set up an Anglo-French control as a provisional régime, in the hope and expectation that the half-accomplished fact would, in the absence of any practicable alternative plan, make it possible to widen the basis of this control so as to make it really international.

On this general issue, I make no apology for reprinting here what I said in a pamphlet which I published in April, 1946. Some phrases in the following extract may 'date'; but I do not feel that I could improve on my statement of the case for an Anglo-French policy for the Ruhr area by writing it out afresh. I therefore append to this chapter the relevant section from my pamphlet.[1] The unification of the British and American zones has made it more essential than it then appeared to do anything that can be done to secure American participation in the policy proposed; and that in turn makes it more important to secure Soviet participation as well. The reader, in considering the next few pages, must make what allowances he thinks necessary for these factors, which have developed since my pamphlet was written.

[1] *Labour's Foreign Policy*. Published by the *New Statesman and Nation* in April, 1946.

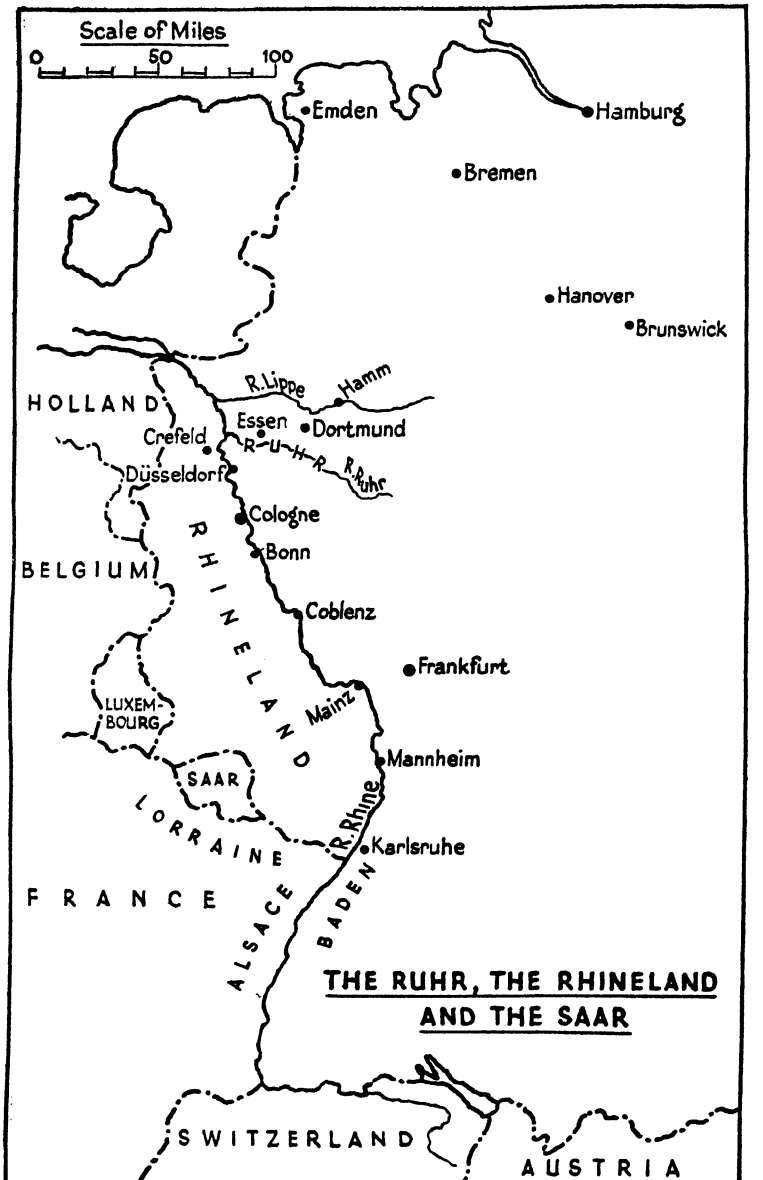
Appendix

The Problem of the Ruhr

The chance of getting Soviet support, or at least of weakening Soviet hostility to the very notion of unity in the West of Europe, depends on finding an acceptable solution of the problem of Germany. Until the collapse of the German *Reich*, the realistic way of thinking about Europe was to regard it as a trinity—of East, West, and Centre—with the Soviet Union holding the predominance in the East, France and Great Britain together in the West (but with Great Britain only half in Europe, and with France therefore holding the key position), and Germany in the Central Region. That way of looking at Europe is now obsolete. There are left, in face of the German collapse, only two key Regions—East and West—and in the Centre a great void into which Eastern and Western influences are bound to expand. The expansion of the East has already occurred in the detachment of large areas from Germany and their attachment to Poland and to the Soviet Union, as well as in the relations that have been established between the Soviet Union and the new régimes in Czechoslovakia and Hungary, Bulgaria, Yugoslavia and Roumania. This leaves certain key areas of which the destiny is still to be decided—notably the Ruhr-Rhineland area of Western Germany, and the rest of the country, industrially much less important, but threatened with intense pressure of population on account of the inflow of displaced Germans from other areas and of the restrictions likely to be placed on its economic development. It also leaves Greece and Austria.

The critical question is that of the treatment of the two areas of Germany. Hitherto, British sentiment has on the whole favoured the preservation of the unity of Germany, *minus* the areas already alienated to Poland and the Soviet Union,[1] and has recognised that the inhabitants of this united Germany must be afforded at least the bare means of living in a civilised way—which means allowing them to produce enough industrial exports, over and above anything that may be claimed as reparations, to permit them to buy raw materials and other necessaries on a substantial scale from abroad. Soviet policy has been harder, and has

[1] And perhaps also minus the *Saar*.



THE RUHR, THE RHINELAND AND THE SAAR

demanded a drastic scaling down of German industrial capacity as the only firm assurance against a revival of the danger from German militarism. On the question of German political unity the Soviet Union, as far as I know, has taken no clear stand: its policy appears to have been rather that of trying to strengthen German Communism in the Russian zone of occupation, without committing itself about the political future of Germany as a whole, but so as to allow the German Communists to preach their Communism as a way to national reunion. French policy has hitherto taken a third line, with the demand that the Rhineland be severed from Germany in the West, and that the Ruhr, if not severed, be made subject to some sort of special international régime which will prevent its resources from being used to bring about a formidable revival of German heavy industry and will at the same time make some substantial part of these resources available for common European use.

If there is one thing clear, it is that no sort of unity is possible in Western Europe except on the basis of an agreed policy about Germany. As long as Great Britain and France differ, or fail positively to agree, in their German policy, all talk of West European unity in anything that matters is bound to be fruitless. Accordingly, if West European unity is desirable, the first essential task is to reach a common policy for the handling of the German problem. What should such a policy aim at, and where is it to begin?

The Future of the Ruhr

It must begin with the Ruhr and the Rhineland; for these are the key areas. First, then, what is to be done about the Ruhr? There are several possible answers. 1. The Ruhr could be left, or made, a desert. Nobody wants quite this; for everybody recognises that the Ruhr coal is indispensable to European revival and long-run prosperity. 2. The Ruhr could be developed for the production of coal and such other raw materials as it possesses, but could be denied all manufacturing industries, or at any rate all which rest on the combined use of coal and iron. Not many are prepared to go to this length; for it is recognised that it would impoverish not only Germany, but a large part of Europe, which could not equip itself to use the crude products of the Ruhr economically if they had all to be transported raw for processing elsewhere. 3. The Ruhr could be allowed to develop its metallurgical industries as well as its coal, but only to the point of producing semi-manufactures for finishing in other countries, and not so as to have any finishing industries of its own in the

heavy and engineering range. On this basis, Germany would export steel, but would have to import finished steel goods, including machine tools and manufacturing plant of every kind. This policy has more supporters; but there are sharp differences about the quantity of steel the Ruhr should be allowed to produce, even if it is denuded of finishing industries. The Soviet Union has pressed for a very severe limitation of raw steel output—so severe as to leave no surplus at all available for buying imports; for even if the steel were all exported for finishing, it would all have to be bought back in manufactured form to supply Germany's internal needs, and clearly it could not be so bought back because there would be no means of paying for it. 4. The Ruhr could be allowed, or could be allowed to share with the rest of Germany, a finishing capacity adequate to meet its restricted internal needs, except where particular finishing processes were still forbidden on grounds of security; and it could be allowed in addition a quota of semi-manufactured and fully manufactured metal products for export, in order to be able to meet some of Germany's import requirements from this source. Here again quantities are obviously important; and this policy too may mean very different things according to the alternative ways of filling in the figures.

The Ruhr Industries cannot be Permanently Destroyed

If we ask ourselves which of these policies is best, it is surely clear that no answer is possible unless certain other questions have been answered first. There must be a policy for the future of Germany before there can be any satisfactory way of dealing with its immediate problems. Now, until only a little while ago, most people who counted themselves in Great Britain as standing on the progressive side took it as almost axiomatic that after the fall of Nazism there would somehow emerge a united democratic Germany which would in due course join the family of European nations and would find its place in, or in intimate connection with, Western Europe. There were no doubt dark suggestions that failure to recognise and provide for such a Germany might provoke a Communist Revolution and throw the Germans into the sphere of influence of the Soviet Union. But the idea behind the attitude of most 'progressives' was that this ought to be stopped by giving the fullest possible aid to a revival of German democracy on West European lines, on a basis of German democratic unity. This policy has now become clearly unrealisable in any complete sense, with the severance of large areas in the East from the German *Reich*. At least, it has become unrealisable without another war; for it is no less certain that Poland and the Soviet

Union will not give back the areas they have annexed and are now busy colonising than that a democratic Germany shorn of these areas *and given no alternative means of self-expression* would be likely to make their recovery one of its main national objectives.

Is a United Germany Possible?

If this interpretation is right, it follows that the accomplished fact in the east has turned the policy of re-creating a united democratic Germany into something very different from what its advocates intended it to be. It was meant to create conditions under which Germany could become a contented member of the European family, conscious of having been generously treated, and having no national grievances crying for redress. But as matters stand now, any attempt to reunite the rest of Germany under Western auspices would not only look like, but would actually be, in effect, a raising-up of a powerful new force antagonistic to Poland and the Soviet Union, and therewith of a potential threat of war. The Soviet Union and the Poles would certainly understand it in that sense, and would altogether refuse to hand over their zone of occupation in Germany west of the new frontier to any German State reconstituted on these lines.

In these circumstances, can it be right to work for German unity, up to the new frontier in the East—at any rate in the near future? I say no—not gladly, or without having hesitated long before coming to a conclusion, but quite positively and with a firm conviction of talking sense. I believe that, in the existing circumstances, the French are right in wishing in some way to detach the Rhineland and the Ruhr from *complete* unification with Central Germany, and to handle the immediate problem of these key areas as a distinct issue.

Economic and Security Issues in the Ruhr

The immediate question is primarily economic—in the sense in which economics and military security are closely intertwined. The reason why so many people wish to destroy most of the productive capacity of the Ruhr and Rhineland industries is the fear that, whatever safeguards may be imposed in order to prevent these industries from serving as a basis for German rearmament, there can in the nature of things be no assurance that these safeguards will hold good for more than a limited period. The Versailles Treaty, it is said, was of no effect in preventing German rearmament after the Germans had got a Government determined to defy its provisions. May not the same thing happen again, if a united Germany, up to the new frontiers in the East, is

allowed to choose its own Government, and finds the intact economic power of the Ruhr and the Rhineland once more at its command?

So stated, the danger appears evidently real; for there can be no assurance that a Germany endowed with democratic forms of government will in fact observe either their letter or their spirit, or will not fall back into the mood of aggression—especially if the settlement in the East has left the seeds for a propaganda of revenge and recovery. Yet the way of meeting the danger that involves the destruction of the most productive region of all continental Europe is surely not to be taken unless it is clear that there is no alternative that will give equal, or greater, security. Remember, even the radical destruction of the industries of the Ruhr and Rhineland cannot prevent these areas from continuing to be places where, on economic grounds, great concentrations of industrial production ought to be. They grew as economic centres because they were well fitted to be economic centres: their production can be wiped out, but not the potentiality of its restoration if the restraints upon its redevelopment should be in future relaxed or removed. It is impossible to visualise a self-governing Germany of the future, when the will of the United Nations to occupy the country has disappeared, not setting about the re-establishment of these great industrial centres—not necessarily for rearmament (that would all depend), but in any case for the improvement of German standards of life.

The Ruhr Problem Involves the German Problem as a Whole

The destruction of the Ruhr and Rhineland industries cannot, in the nature of things, be maintained as a *permanent* policy; for it is in the long run inconsistent with self-government, which must be restored sooner or later, even if it is refused for the time. But, on the other hand, it would be altogether too dangerous to hand these great centres of heavy industry, and therefore of potential rearmament, back without any restriction on their use to a re-united Western and Central Germany which would be bound to cherish ambitions of recovering the lost provinces of the German *Reich*, if not of more than that, should it see a chance of success in enforcing their return. This is the dilemma; and, after much thought, I can see but one way out of it—which is, that the Ruhr and perhaps the Rhineland also shall become, in economic respects at least, internationalised areas under the control of an international authority specifically directed to develop their resources for the common benefit of the European peoples.

Is Partition Wrong?

But this, it will be objected, involves a further partition of Germany, beyond the severance of German-inhabited territories that has already occurred in the East. It involves flouting the principle of national self-determination and unity, and subjecting an undeniably German area, inhabited by many millions of Germans, to alien control. It is easy to make a case against the policy on these lines; but I am not convinced by it. If, by following the principle of national unity and self-determination to its limit—as far as it can be so followed in face of the accomplished facts in the East—we shall, in fact, be laying ourselves open within a few years to a repetition of what happened after Versailles, can it possibly be right to act in such a way? The plain truth is that, even after the German losses of men and territory, there are still too many Germans and foundations for too strong a revival of German military power for it to be safe to re-create a fully self-governing Germany, including the Ruhr and Rhineland, under a single, sovereign German Government—that is, unless we can honestly feel that the world has advanced far enough in the arts of international friendship and co-operation to rule out the very possibility of another war.

I do not like saying these things: they hurt me. But they must be said if British policy at the present juncture of world affairs is to follow a sensible course. It will be no kindness to the German people if, taking our stand on the principle of national unity, we go on to argue that German unity can be made tolerably safe for the rest of Europe only on condition that Germany is kept permanently poor, and denied the opportunity of using the great talents of the German people either for their own benefit or for the world's. A permanently pastoralised, artificially impoverished Germany is not consistent with real German self-government, and is consistent with German unity only on the assumption that it is to be the unity of lasting enslavement.

The Case for Temporary Partition

If, however, we cannot tolerate German unity except combined with slavery (which our power and will to enforce for long are very doubtful), is not some sort of partition, at least for the time being, infinitely preferable, from the standpoint of the Germans as well as from our own? It involves, no doubt, the persistence in Germany of outraged national feelings; but will such feelings be stronger or worse than the feelings likely to be aroused by the attempt to impose economic slavery on a united country? I

think not; and they will be at any rate far less dangerous, if we can succeed, in the Ruhr and in the Rhineland, in creating conditions which will help to make such feelings less bitter, and to provide an alternative focus for popular loyalty and co-operation.

This is, indeed, the crux of the whole problem. If we internationalise the Ruhr and the Rhineland and set their inhabitants to work full steam ahead for the benefit of Europe as a whole—of course, including all Germany—can we create among the people in these areas a feeling, not of being exploited and enslaved by alien powers, but of being given a chance of participation in a common enterprise in which they, as Germans, can co-operate without losing their self-respect?

This is what I believe we must attempt to do. But I am convinced that it can be done only on a broadly Socialist basis. I do not want, in any formal or constitutional way, to declare the Ruhr and the Rhineland severed from the rest of Germany permanently, or alienated, even temporarily, from being parts of Germany. I want their citizens to be able to continue to think of themselves as Germans, without having to think of themselves as rebels as well; and I want them to be governed, in their internal affairs, by German citizens of their choosing, subject only to the overriding control of an International Commission over the use of their key economic resources. Indeed, I want them to think of themselves not merely as Germans, but as constituting the real nucleus of the Germany of the future, which will some day become politically reunited in a full sense with the central German lands—but to think of themselves in this way, not apart from the other peoples of Western Europe, but as the partners of these peoples in building up a closely co-operating group of countries on the foundations of liberal Socialism.

Can I hope to make my meaning plain? It is wrong to think of breaking away the Ruhr and the Rhineland from Germany, because they are part of Germany, and nothing can alter that final fact. But it may be right to treat the Rhineland and the Ruhr as the essential nucleus of the new liberalised Germany, and not to condemn these areas to economic devastation on the ground that we cannot take the risks of allowing them to develop their resources as part of the resources of a united Germany that might easily cherish hopes of a war of revenge and, if it were in such a mood, could by no means be built into the structure of a free European federation of the West, founded on the principles of Socialist construction.

What I am arguing is this. (1) Nobody dares face for the present the danger of a reunited Germany set free from economic restrictions and from armed control by the United Nations. (2) Therefore, for the present, plans for a united Germany are also necessarily plans for a Germany kept artificially weak, impoverished, and enslaved. (3) The enforcement of a settlement of this sort would impoverish not only Germany but all Europe; for it is impossible to destroy Europe's greatest centre of industrial production without this result. (4) The Russians will certainly not co-operate in allowing German unity on any basis that does not involve impoverishment: nor will they evacuate the areas they now occupy on terms that will leave Germany united unless they leave it devastated as well. (5) If the control of the Ruhr and the Rhineland were treated as a distinct problem, and these areas were brought under an economic control which would be instructed to use their resources for the common benefit of Europe—including the Soviet Union and its associates in the East—it might be possible to secure agreement on a policy which would allow the productive resources of Western Germany to be conserved and restored, instead of being destroyed on grounds of European security. (6) This would involve leaving Central Germany for the time being something of a political vacuum, and leaving its citizens to make the best of what they would feel to be a bad job—for they could not be expected to like a solution which would involve an economic frontier between Central and Western Germany. On the other hand, it would remove the difficulty of allowing Central Germany to develop its own self-government almost without restrictions, because, holding effective power neither in the East nor in the West and compelled to face urgent problems of sheer subsistence for the inhabitants, any Government established in it could not be dangerous, either to the Soviet Union or to the West, or provide a point of focus for intrigues that would threaten another war.

It may be argued that the policy here proposed would be hard on Central Germany. But I do not think it need be any part of our policy to be soft, beyond assuring to the German peoples the means of living, at a tolerable standard, as well as the hope of living better in the future and of becoming in due time full members of the family of self-governing nations. I maintain, moreover, that it is much less hard to condemn a section of the German people to a temporary limbo than to condemn them all, and further that the treatment meted out to a Central Germany of which the rest of Europe has no cause to feel afraid is likely in

practice to be a good deal less hard than what will be meted out to a Germany which its neighbours in East and West alike will feel under a necessity of keeping artificially weakened to the utmost because it is still potentially so formidable in a military sense. Nor is there any reason why, under the plan here suggested, the people of Central Germany should fare any worse than the people of Bavaria, or of the other 'States' into which the American zone has been broken up.

A Plan for Western Germany

I shall not have made my meaning clear until I have explained more positively what I do want to see done in the Rhineland and the Ruhr—or, let us say, first of all, in the Ruhr, because that is economically the key region. Very well, then, I want, for the Ruhr, an internationally appointed Commission of Development and Control, specifically instructed to develop the production of the region to the fullest extent that can be made consistent with the absolute prohibition of armament manufacture or of the creation of the complex of finishing industries that would render its resources readily convertible to warlike purposes. I want the Commission to be instructed to develop the Ruhr's resources as an international asset, and under the collective ownership of the Commission itself, as trustee for the participating countries, of which Germany as a whole should from the outset be one. I want the Commission to plan the output of the Ruhr from this standpoint, and to have exclusive control of all the key industries in it—and of course therewith exclusive control over all imports of raw and semi-finished materials into the area. I want the Commission, just as far as may be necessary for these purposes and no farther, to exercise political as well as economic control, with a German Regional Government responsible for regional legislation and administration in all other fields and for the supervision of democratically chosen local governments. I want the Ruhr, while this régime lasts, to have *no* common political institutions with the rest of Germany,[1] but to have the fullest freedom of cultural association and personal movement for German citizens across the international frontiers. I want the Ruhr workers to be free to belong to the same Trade Unions and other democratic associations as other Germans, and, if they will, to the same political parties.

Soviet Participation in the Control of Western Germany

The objective underlying this policy is, of course, that of drawing Western Germany into close economic partnership with the

[1] Except that the Governments of other parts of Germany, as well as that of Western Germany, should be given seats on the controlling Commission.

rest of Western Europe, to which it is closely linked by its past, and of doing this on terms which will give the Soviet Union and its neighbours in Eastern Europe a share in the control of the Ruhr through the International Commission and in the fruits of the redevelopment of the Ruhr industries under the proposed international control. I am not proposing that the Commission for the Ruhr should be controlled by the countries of Western Europe alone, because any such plan would necessarily arouse the most violent opposition on the part of the Soviet Union. Economically, the development of the Ruhr and its industries must be made a matter in which all Europe has a recognised interest; but culturally the tendency of the plan here put forward would be to bring the Ruhr Germans into practical co-operation with the countries of the West, and to make possible the evolution in Western Germany of a new liberal Socialist order that would prepare the way for closer relations in the future.

The Future of Western Germany—A Summary

So far I have been repeating, with only a few very small verbal changes, what I wrote early in 1946. Naturally, the situation looks a little different now—especially since the agreement for the unification of the British and American zones, and also in view of Russian statements suggesting a readiness to modify the Potsdam decisions, and of a modification of the French attitude in face of the evident intention of the other occupying countries to insist on some sort of German unification as a final objective. One effect of these developments has been to make it more probable that, for some time to come, German unity will be allowed only in the form of a loose federation, under supreme Allied control, of a number of separate 'Lands' into which the zones of occupation have been divided. Under this system each 'Land' is being equipped with its own Constitution, in which a reservation is made, in somewhat vague terms, in respect of powers to be exercised at some time in the future by a central German State. Obviously, the plan which I have suggested for the Ruhr could be fitted in fairly easily to this transitional structure. The Ruhr, organised as a 'Land,' would have for the time being a Constitution that would assign large economic authority to the proposed International Commission, but would be able, subject to these reservations, to play its part in the development of the central, federal institutions of the new Germany. Something of this sort has perhaps been in Mr. Bevin's mind in the hints that he has thrown out from time to time about an international control of the Ruhr industrial area.

In the light of these later developments I now proceed to summarise the proposals which are made in this chapter, as far as they deal with the economic future of Western Germany. What I have suggested is broadly as follows:

(*a*) that the Saar should be definitely detached from Germany and attached to France, perhaps in the same sort of relationship as exists between Belgium and Luxemburg;

(*b*) that the Rhineland should be permanently de-militarised, and should remain under military occupation for a period of years, even if the rest of Germany ceases to be occupied;

(*c*) that the Ruhr industrial area, while remaining politically a part of Germany, should be made subject, in economic matters, to an International Control Commission, on which Great Britain, France, the Soviet Union, the United States, Belgium and Holland, *and also Germany itself*, should be represented;

(*d*) that the Commission should be instructed to develop the industrial resources of the Ruhr in the common interests of the European peoples, and, while taking effective steps to prevent any use of these resources that might serve as a basis for rearmament, should be free to make full use of them for supplying the needs of European markets as well as of the German people;

(*e*) that the French should be guaranteed a generous share in the coal produced in the Ruhr, as soon as output rises above an agreed minimum level required to stimulate German economic recovery;

(*f*) that the basis for the International Commission's work should be that the coal-mines and the other basic industries of the Ruhr should be owned by the Commission itself, as trustee in the first instance for the controlling States and ultimately for the German people, and should be worked either directly by the Commission or by Boards appointed by it, and not for private profit;

(*g*) that the net proceeds of the Ruhr's industrial exports should be applied in agreed proportions to meeting the cost of imports into Germany and to paying for a limited period reparations in lieu of any further removal of plant (except war plant) from Western Germany as reparations; and finally,

(*h*) that there should be a complete economic unification of all four zones of Germany, on the lines of the unification achieved at the end of 1946 between the British and American zones, subject only to the separate control to be exercised by

the International Commission in the Ruhr, and to the severance from Germany of the Saar in the West, and of the areas occupied by Poland and the Soviet Union in the East, and to any frontier rectifications agreed upon to meet the claims of Holland and Belgium.

CHAPTER V

EASTERN AND CENTRAL EUROPE

THE ENTIRE SITUATION in Eastern Europe remains so difficult to interpret politically that I propose to say but little about it in this book. Economically, the needs of the whole region are plain; and I have done what I can to put them clearly before the reader. The countries of Eastern Europe stand in need of a vast investment of capital for the improvement of their agricultural methods, for the development of roads and transport services, and for industrialisation, especially with a view to supplying more of their own needs for the simpler kinds of consumers' goods. A considerable part of the capital required for these purposes, as well as for the improvement of health and educational services, they will have in any case to provide out of their own resources. But, if their development is to be at all rapid, they must receive substantial help from abroad, in the form of gifts, loans or investments from the more advanced countries. To attempt rapid development in the absence of such help would be very much harder for these countries of Eastern Europe than it was for the Soviet Union, because they are densely populated and have no free lands which they can open up and much less diversified natural resources available for exploitation.

So far the position is clear. But it gives rise at once to a serious difficulty. The mobilisation of home resources that is a necessary condition of successful planning can be accomplished, or even attempted, only by a really strong Government, prepared to incur a large amount of unpopularity not only with the old ruling classes of the countries concerned, but also with most of the better-off peasants and with a large section of the urban middle class. The indispensable condition of planning for economic development in these backward countries is that there shall be no waste; for there is so little real surplus that can be spared for investment from current consumption that every ounce of it must be put to good use. The better-off peasants, however, will resent any policy that is based on abstracting their surplus for meeting the needs of the landless or the costs of government works of development; and their discontent will be exploited by every group belonging to the old ruling or well-to-do classes. In these

countries, exploitation of the poor by the rich has existed hitherto naked and unashamed. The ruling classes, or most of them, have simply not regarded the main body of the people as men and women possessed of fundamental human rights: and they have taken as a law of God and nature their own right to live sumptuously on the incomes which they have exacted from their tenants and dependants. The urban middle class, small in numbers, has also been accustomed to standards of living not merely much higher than that of the mass of the people, but based on a quite different order of life; and this class too has hardly questioned its own right to live at Western standards amid a depressed population which it has not regarded as sharing a common civilisation with itself.

In these circumstances, large sections of the ruling and middle classes will be ready to resort to *any* expedient that offers a hope of preserving or of restoring their position of privilege. Having no tradition behind them at all analogous to that of Western parliamentarism, they will see nothing wrong in any form of Fascism or dictatorship that can be used to uphold their position; and they will defend their action by saying, and will largely believe, that they are standing for the cause of civilisation against barbarism, and will claim the support of the Western countries on the ground that they are the representatives of Western civilisation and 'democracy' against the 'dictatorship' of the Communist-inspired lower class. If the more openly Fascist and reactionary parties among them are proscribed on account of their collaboration with the Nazis during the war, the supporters of these proscribed parties will flock into whatever parties that are still permitted to stand most in opposition to the forces of Socialism and Communism. In most cases the parties most likely to be thus honoured with an influx of reactionary recruits are the Peasant Parties dominated by the better-off peasants and led largely by lawyers from the towns. The effect is that these Peasant Parties, whatever their previous condition and policy, become reactionary, exploiting the discontents of the wealthier peasants in the interests of the upper and middle class groups hostile to fundamental social and economic change.

On the other side, this alignment of the reactionary forces is bound to drive Social Democrats and Communists into closer working alliance, either to defend a social revolution which has already occurred, as in Poland and in the Balkan countries, or to prevent the return of a sheerly reactionary régime, as in Austria and, to a certain extent, Hungary. With the Communists and Socialists are allied, in such cases, parties or groups based mainly

on the poorer peasants who stand to benefit by fundamental land reform. Where, however, the possibilities of land reform that will give land to a large proportion of the landless do not exist, because re-distribution had already in the main taken place after the first World War, the basis of support for left-wing Peasant Parties is apt to be narrow, and the right-wing Peasant Parties are able to muster a big following, even when they have become in reality disguised instruments of the old ruling classes.

The plain fact is that the necessary conditions of carrying through the social revolution which is in these countries the indispensable foundation for economic development are so unpleasant in their immediate incidence on large sections of the peasant population that any Government which attempts such a policy is bound to incur a great deal of unpopularity. The policy means taking away from the better-off peasants many things they would like to consume, and not offering them much in immediate return; for it is of the very nature of any policy of high investment designed to increase production in the future that it should limit the immediate supplies of consumable goods. Probably if in the early stages of Soviet planning there had been a free vote of the Soviet peoples, preceded by free propaganda conducted by rival parties, there would have been a majority against the Communists and against the whole idea of the Five Year Plans. Some people will argue that, on grounds of 'democracy,' this admission suffices to show that the Communists were wrong, and had no right to go on with their planning against the will of the majority. The Communist answer, with which I agree, is that the persons who would have formed this majority would have been quite incapable of endowing Russia with a democratic Government, and that their electoral victory would have resulted in a chaos which could have ended only either in the establishment of a reactionary dictatorship or in civil war.

Communism and Socialism in Eastern Europe

The contention of the Communist and Socialist Parties which are now acting together in the countries of Eastern Europe, on the basis of various sorts of 'Fatherland Front' or 'United Front' of left-wing parties, is that the present situation in their countries is analogous to that which existed in the Soviet Union after the Russian Revolution, and calls for similar, though not for precisely the same, methods. The assertion of the British Foreign Office and of the American State Department that the elections held in these countries have not been 'free,' in the sense in which elections in Great Britain and the United States are 'free,' is of

course perfectly true. Elections in Eastern Europe never have been 'free' in that sense; and the elections held since the war have not been 'free.' They have been, wherever possible, managed by the parties in power, so as to yield majorities for the lists of candidates put forward by the Government bloc. The propaganda of rival parties has been hampered and restricted: there has been intimidation in many cases, and in some probably actual falsification of the votes. When, however, allowance has been made for past electoral habits and for the undoubted presence in the parties of the Right of considerable Fascist and counter-revolutionary elements, it is not easy to see what else could have been expected, if elections were to be held at all under the disturbed conditions existing at the time. I am not saying that I like faked elections, or even elections in which the scales are heavily weighted on one side. But I am saying that the idea of settling a country's fate by a general election held in the middle of a social revolution is fantastically absurd.

It is of course possible to say in answer to this that social revolutions ought not to be allowed to occur, and that it is better to settle matters in an orderly fashion by open debate and counting of heads. This is what a great many people in Western countries do say; and the Americans in particular have kept on saying it in relation to the peoples of Eastern Europe. But it is not a self-evident truth that counting of heads is under all circumstances the best way of proceeding. The very people who press 'free elections' on the East European countries would in many cases be vehement in denouncing their impracticability in, say, the African colonial territories of the Great Powers; and the consequences of an attempt to apply this method in Greece have not turned out any too well. When and where what one may call a 'revolutionary situation' exists, the conditions may be such that a 'free election,' conducted in accordance with the approved Western rules, so far from settling anything, may saddle a country with a Government that cannot govern and that is impotent to solve any of the problems out of which the 'revolutionary situation' has arisen.

A Choice between Rival Social Systems

The countries of Eastern Europe, or at all events a number of them, have been since the collapse of the Nazis in a state in which the choice has to be made, not merely between rival Governments or policies, but between irreconcilable social systems. Neither in Poland nor in Yugoslavia nor in Bulgaria nor in Roumania—nor, for that matter, in Greece—is there the smallest

possibility of a parliamentary régime based on an underlying unity between the contending parties. Yet without this underlying unity the parliamentary system, as we understand it, cannot possibly work; and without this unity 'free elections,' as they are understood in Western countries, cannot in practice be held. Where the choice has to be made between rival social systems, and each side is prepared, if necessary, to *fight* for the system it favours rather than accept the alternative, the question cannot be settled by counting heads in an election in which each side allows the other full freedom of propaganda. For to attempt to settle it in this way means leaving it to be decided by the least politically-minded and least instructed voters, not on the merits of the case, but in accordance with their reactions to the efforts of the rival propagandists and to a large extent in accordance with their fears. It may be said that, except for the fears, this is what occurs in any 'free, democratic' election; and the assertion is not without substance. But it does not affect my point. In most elections, neither party is prepared to resort to civil war rather than let its rival win; for in most elections the entire basis of the social system is not at stake. When it is at stake, the issue is bound to be decided not by counting heads, but by the balance of real power and will-to-prevail between the contestant groups—including, of course, such power as they are able to borrow from their friends.

The Social Revolution in Eastern Europe

Over Eastern Europe to-day there is proceeding a social revolution which the Soviet Union cannot afford to see fail. This social revolution does not extend to the institution in the countries concerned of a system of Communism based on the Russian example. It cannot do so, if only because the Communists in the countries affected are not strong enough to be able to govern on this basis even with such help as the Soviet Union could afford to give them. But the revolution does and must extend to a thorough and final liquidation of the power, economic as well as political, of the old aristocratic governing classes; for as long as this power remains unbroken beneath the surface the threat of counter-revolution to re-establish the supremacy of these classes will always remain. These classes will never accept the new social order as long as they retain any power to work against it, in the open or underground; and, as the growing pains of the new order are certain to be severe, they will certainly find means, as long as the power is left them, of stirring up discontent against it. In all probability, their wrecking tactics will make it impossible for the

new order to succeed in its constructive measures. Accordingly, those who stand for the new social system against the old have no alternative. They must root out the power of the old privileged classes so thoroughly as to render their counter-revolutionary hopes impotent.

It is extraordinarily hard for the articulate leaders of opinion in the Western countries to accept, or to recognise, this necessity. To professional diplomats, to Civil Servants, and to politicians, as well as to business men, the old ruling classes of these backward countries appear to stand for such civilisation as they possess. These countries have no internationally known leaders belonging to their lower classes, nor have the national leaders of the real left ever been allowed under the old aristocratic or military dictatorships to achieve any public recognition, such as belongs to the leaders of the working-class movement of the West. Consequently, all the Western Embassies and Foreign Offices are distorting mirrors, in which the situation in Eastern Europe is presented awry. The entire situation is seen through the medium of social intercourse with men and women who belong to the old order, and hate the new. And it is easy for ambassadors and such like, by passing on to their own countries the view that the left are brigands and barbarians, at the same time to convey the impression that their counter-revolutionary friends are the true representatives of democracy.

Poland

Of course, the situation varies considerably from country to country. In Poland, the Peasant Party headed by Mr. Mikolajczyk has become the main focus of open opposition to the Socialist-Communist Government which was installed in power with Russian help; and this Peasant Party, as the tolerated opposition in the election of January 1947, received the main support of the right-wing groups hostile to the new régime. Mr. Mikolajczyk himself is not a 'right winger.' He broke away from the extreme anti-Russian attitude of his colleagues in the wartime London Polish Government, and returned to Poland to reorganise his party there on a programme of good relations with the Soviet Union. But, unfortunately for him, he was put in the position of appearing to be thrust upon the new Polish Government as Vice-Premier by the insistence of the United States and Great Britain, and his party became a centre of all manner of intrigues against the Government of which he was nominally a member, and even got badly mixed up with the underground conspiratorial forces which are continually at work in Poland, and have undoubtedly

counter-revolutionary aims. The extremely foolish handling by the British Government of the problem of winding up the reactionary Polish Government in London and of disbanding the Polish Army in Italy, which under General Anders was definitely a counter-revolutionary force, made the Polish authorities in Warsaw more than ever inclined to regard Mr. Mikolajczyk as an instrument to be used for their overthrow by the reactionary forces in London and Washington. Undoubtedly, there was intimidation in the elections of January 1947, and the representation accorded to Mr. Mikolajczyk's Peasant Party was grossly below its real following; but no less certainly a substantial proportion of its supporters were set on destroying the new social system in Poland, and on putting the old reactionary classes back in power.

Yugoslavia

In Yugoslavia, the National Front headed by Marshal Tito was a good deal more successful in consolidating its position and in reducing the old ruling classes to impotence. This was largely because the forces opposed to the new order had effectively discredited themselves while the war was still in progress, and because the Tito partisans had shown their quality in resistance during the German occupation so successfully as to induce the British and other Allied Governments to support them for sound military reasons. This did not happen at once; but the association of the Yugoslav Government in exile with General Mikhailovitch, and that General's failure to resist the Germans and proved collaboration with them against Tito's partisans in the end convinced even Mr. Churchill. The consequence was that, when Yugoslavia was freed of the Germans, the Tito National Front was able to take over the Government with the recognition of the Western Powers; and, even though Tito's 'dictatorship' was subsequently much criticised in the West, it was realised that nothing could be done to upset it, and no effective support was given to its opponents. The National Front was thus able to set about the reorganisation of Yugoslavia as a federal State based on large autonomous powers for its constituent national groups with comparatively little interference from outside, even though its methods were no more consistent with Western parliamentary notions than those of the Polish Government at Warsaw.

Roumania and Hungary

Poland and Yugoslavia ranked as Allied countries. Roumania and Hungary, on the other hand, were enemies, and played a

direct part with the Nazis in the war against the Soviet Union. Accordingly, when the Nazis had to withdraw, Soviet armies of occupation came in to take their place; and the reconstitution of their Governments was done under Soviet auspices. In both countries, but especially in Roumania, it was not easy for the Soviet Union to find the materials for Governments which could be relied on to carry through the social revolution which they desired, and effectively to liquidate the forces of reaction. In Roumania both Communism and Socialism were relatively weak, and had suffered from severe repression; and the main Peasant Party, that of the veteran, Dr. Maniu, was strongly anti-Russian in sentiment, as well as anti-Socialist. As Roumania is not a Slav country, there was no sentiment of Slav solidarity on which the Russians could build, as they could in Yugoslavia and in Bulgaria; and the National Democratic Front which they succeeded in building up out of a coalition of left-wing parties had never a really strong foundation of popular support. The Soviet occupation was unpopular, and the economic condition of the country, aggravated by harvest failures, exceedingly bad. The Prime Minister, Dr. Groza, was not a Communist, but the leader of a small Radical Peasant party—the Ploughmen's Front—which had broken away from Dr. Maniu's leadership; but the key positions were held by Communists, and the Government was kept in power by the occupying forces of the Soviet Union. In December 1945, at the Moscow Conference, the Western Powers insisted on a broadening of the Roumanian Government by the inclusion of representatives of the main opposition parties—Dr. Maniu's National Peasants and the Liberals—but these representatives, like Mr. Mikolajczyk in Poland, have had no real share in the shaping of Government Policy. Underground, Fascism still remains a powerful force; and a large part of the peasant population would probably either remain apathetic in face of an attempted reactionary *coup*, or even side with it against the Government because of anti-Russian feeling. Even though Roumania's possession of Transylvania has been confirmed, and though the Government has undertaken valuable measures of land reform and has restored Trade Unionism, which had been suppressed, nationalist feeling against it, as the representative of Soviet influence and authority, is so strong as to render its future precarious; but if, as a sequel to the withdrawal of the Soviet forces, the present Government were to be overthrown, it is not easy to see what could replace it save a dictatorship of the extreme right—for there appears to be no coherent force in the centre or on the left capable of holding the country together by its own

unaided strength. The General Election held in November, 1946, gave the parties of the Government's National Front an overwhelming majority, but it was followed by the resignation of the National Peasant and Liberal members of the Cabinet, and by the usual allegations that the elections had not been 'free,' and that the results had been rigged.

In Hungary, after the Germans had been driven out, there emerged a coalition of left-wing parties much more real than that which was created in Roumania, with the Smallholders, Socialists and Communists as its three leading elements. As Hungary was still a country of huge, undivided landed estates and of landless rural workers, radical agrarianism was much stronger than in those countries in which much of the land had already been divided up, and in which Peasant Parties were mainly dominated by the wealthier peasants. The Smallholders' Party, like other European Peasant Parties, attracted into its ranks after the liberation large urban groups hostile to Socialism and Communism; but it also retained its radical agrarian character, and one of the first measures of the coalition Government in which it was represented was a drastic land reform, aimed at the breaking-up of the great estates and the liquidation of the economic power of the landed aristocracy. When elections were held at the end of 1945, on a basis of separate party lists (the Russians tried to insist on a single Government list, but were over-ruled), the Smallholders' Party received a great preponderance of votes, with the Communists and Socialists running nearly even a long way behind. The Government was reconstructed with a Smallholder Prime Minister, but as a coalition; and this situation continued uneasily through 1946, though a right-wing section of the Smallholders broke away to form a new Freedom Party in opposition to Socialist and Communist influence. Hungary, in effect, was able, with the support of the Western Powers, to stand out for the time against having a Government mainly dominated by the Communists, largely because there did exist an alternative political force prepared to go some distance along the road of social revolution, and to collaborate on equal terms with the Socialists and Communists, whereas in Roumania there was no corresponding party, and the choice lay only between the domination of the one or the other extreme. The coalition was, however, most uneasy; and early in 1947 the Russians insisted on a purge of the Smallholders' Party, which was compelled to agree to a fresh General Election.

Both Hungary and Roumania were centres of serious economic conflict between the Soviet Union on the one hand and the

British and Americans on the other. The Russians aimed at linking the economies of both countries as closely as possible to that of the Soviet Union, and made economic agreements providing for joint Soviet-Hungarian and Soviet-Roumanian companies to undertake the development of their industrial resources, and also for close mutual trade relations. The Americans and British objected to these arrangements as prejudicial both to the claims of foreign capital already invested in Roumanian and Hungarian enterprises and to the right to trade freely with these countries and to make further investments in their development. Thus, the Americans and the British (and also the French) were in effect standing for the claims of capitalist trade and investment in the Danubian and Balkan countries, whereas the Soviet Union was trying to detach them economically from capitalist influence and to build them into an East European integrated economic system based on State planning and control. This issue came to be closely related to that of the control of the Danube navigation, which the British and Americans wished to regulate by international convention on the principle of equal access for all—that is to say, of the right to capitalist trade and exploitation—whereas the Soviet Union insisted that the regulation of the Danube and of its tributaries was exclusively a matter for the riparian States, and that the United States and Great Britain had no valid claim to share in the control.

Bulgaria

Bulgaria, unlike Roumania and Hungary, was never at war with the Soviet Union, though it was with the Western Powers. When it passed under the control of the advancing Soviet forces, there emerged a 'Fatherland Front,' based on a coalition of the left-wing and anti-German parties. Here again, the Western Powers endeavoured to insist on a broadening of the Government to include the main opposition parties; but the negotiations broke down, and the American and British Governments began a bombardment of the Bulgarian Government and of Moscow with notes expressing their dissatisfaction with the political situation. The Bulgarian Government, however, refused to recognise the right of the British and Americans to intervene in their conduct of their domestic affairs; and the Fatherland Front steadily consolidated its position. A referendum held in September, 1946, declared by an enormous majority in favour of a Republican Constitution, based on government by a single elected Chamber; and in the ensuing General Election the Fatherland Front secured an overwhelming majority, and the Communists also

greatly increased their strength in relation to the other parties included in the 'Front.' The opposition protested that the elections had not been 'free,' and was backed up by further protests from London and Washington; but the Bulgarians felt strong enough to reject these protests, and a new, predominantly Communist, Government took office with Mr. George Dimitrov, the former secretary of the Comintern and hero of a famous trial held in Germany in the early days of Nazi power, as Prime Minister and effective ruler of the country. Even if the Bulgarian elections were not 'free' by Western standards, there is no doubt that the Communists and the Fatherland Front do enjoy wide popular support, and that there is no such unpopularity of the Russians as exists in Hungary and Roumania among considerable sections of the people. Bulgaria, as well as Yugoslavia, does appear to have become a willing partner in the Slav group of countries in South-Eastern Europe, and to have undergone a comparable social revolution.

Greece

In Greece a very different situation exists; for Greece was occupied, on its 'liberation,' not by Soviet but by British forces; and its destinies have since been shaped under British control and under British-American influence. The Greek Left, largely under Communist influence, would unquestionably have made itself master of the country had it not been defeated by British military force. The British and Americans, thinking in terms of Mediterranean power politics, were determined to keep Soviet influence away; but the British Labour Government, while intent on this, had no wish to put the Greek Right into power, and accordingly tried for a long time, by one expedient after another, to rule the country through middle parties which proved to have no sufficient following to maintain themselves in power. Finally, in a plebiscite held under British observation and boycotted by the main body of the Left, a majority of the electorate voted in favour of the Populist (Royalist) Party; and the assumption of office by this party was followed, in September, 1946, by a plebiscite which resulted in the recall of King George from exile in Great Britain. The British policy thus appeared to have led to the complete victory of the right-wing forces; but during the next few months serious disturbances developed both in the north of Greece and in the Peloponnese, and it became evident that the Populist Party was incapable of governing the country in an orderly way and was determined on a campaign of persecution of its political opponents which alienated such moderate opinion as did exist.

At length, in January, 1947, these conditions led to yet another reconstruction of the Government, under a less intransigeant Prime Minister, but with still a predominance of monarchist elements and without the participation even of the Liberal Party of Mr. Sophoulis, the only really substantial middle group.

The political fortunes of Greece were thus as much subordinated to the exigencies of British-American power politics as were those of the other Balkan States to those of the power politics of the Soviet Union. If the British had allowed the Greek Left Wing resistance movement—the E.A.M.—to get control of the country when it attempted in 1945 to establish its position by force, Greece would have passed, like the rest of the Balkans, within the Soviet sphere of influence in Europe. The only way of preventing this, as it appeared, was to put the Greek Right into power, and therewith to compass the defeat of the social revolution in Greece—an awkward policy for a British Labour Government to justify to its own supporters. Mr. Bevin would doubtless attempt to justify it by pleading that he had done his best to prevent his action against the Greek Left in turning into a victory of the Right, and to find a middle way consistent alike with British Mediterranean interests and with the principles of Western democracy. But the plain truth was that no more in Greece than in any other of the Balkan countries was there any sufficient basis for parliamentary government of the West European kind. There was—and are—only two real alternatives: social revolution, involving the supremacy of a left 'Front' with the Communists as its main driving force, and counter-revolution, involving the supremacy of the reactionary forces. As between these two, Mr. Bevin opted, on grounds of power politics—and under American influence as well—for the counter-revolutionary solution—as appeared beyond question when, in March, 1947, the Americans, openly proclaiming their motive to be hostility to Communist penetration, took over the task of financing the Greek reaction, which Great Britain could no longer sustain.

Italy

This is the most convenient place to refer briefly to three other countries which lie, both geographically and culturally, between East and West, but differ widely in culture from the Eastern group. These three are Czechoslovakia, Austria and Italy. I am well aware that many Italians will keenly resent this way of referring to their position in Europe; for Italy is by literary standards and historical traditions essentially a country of the Western group. I justify the reference by asserting that, wherever

Italy may stand in the arts and in history, both politically and economically it occupies a middle position. It is over-populated; it has a large, deeply impoverished and backward peasant population, especially in the south; and it has never made a success of Western methods of parliamentary government. Italy was the first important country to fall after the first World War under Fascist dictatorship; and the ease with which this dictatorship was established showed that Western parliamentarism had no strong roots in the Italian people. It is, in truth, a land of contradictions, in which the highly advanced and the utterly primitive jostle each other at many points; and its history since the fall of Mussolini and its swing-over to 'co-belligerency' with the Allies against the crumbling Nazi power illustrates the fatal ambiguity of its political make-up. It has strong Communist and Socialist Parties; but their strength is mainly in the industrial north of the country; and over the whole area the Catholics have still a larger following than either. Nor has Fascism been thoroughly eradicated: it shows signs of revival in the 'Uomo Qualunque,' or 'Common Man,' Party, which has recently gained a rapidly growing number of adherents. Italian Socialism shows the effects of the midway position of the country by the split in 1947 between its right wing, strongly hostile to co-operation with the Communists, and its larger left wing, which stands for working-class unity against the danger from the Catholics and the Qualunquists. An uneasy and newly-reformed coalition, under a Catholic Prime Minister, holds office as I write these words;[1] but it may fall at any moment, and no one knows what is to take its place if it does fall. Economically, Italy's difficulties can hardly be solved without emigration on a really large scale; but whither are the emigrants to go? Politically, Italian sentiment has been strongly roused by what are regarded as unfair terms of peace, giving too little credit to the Italian people for its help in the final stages of the war, and by the loss of Trieste and the threatened loss of the Italian overseas empire. The conditions are such as to make the country inevitably a potential centre of future international disturbance. It does not belong to Eastern Europe; but it is not in a state to become effectively a partner of the countries of the West. Its economic situation and outlook are almost desperately bad: its natural resources are poor, and its population continues to grow at a prodigious rate. Yet, with all this, Italy is a great country, with a great cultural tradition that binds it unequivocally to Western Europe; and with Western Europe it must, in the end, somehow work out its political and social salvation.

[1] March, 1947.

Czechoslovakia

Czechoslovakia also lies on the frontier between Western and Eastern Europe, and has points of close cultural, as well as economic, contact with both. Its experiences at the hands of the Germans have left a legacy of fierce anti-German feeling, and therewith a determination to root out the German minority from its midst—including not only the large German population of the Sudeten borderlands, but also the long-settled Germans of Prague and other mainly Czech towns. The removal of this large German population has involved much suffering, and has also meant for Czechoslovakia a considerable loss of highly skilled workers, who cannot be easy to replace. President Benes saw, at an early stage, that the best hope for the re-establishment of a free Czechoslovakia lay in coming to terms with the Soviet Union, and thus making it possible for the exiled Government to return and to re-shape the country's institutions without the same sharp break with the past as befell the Poles because of the foolish intransigeance of the Polish Government in London. This policy of collaboration with the Soviet Union involved the transfer of the eastern end of pre-war Czechoslovakia—the Ruthenian territory inhabited by Ukrainian peasants—to Soviet sovereignty; but this was no loss, for Ruthenia was poor and had little in common with the rest of the country in either culture or national feeling. In Czechoslovakia, shorn of this area, there were difficult problems as between Czechs and Slovaks, including the liquidation of a large element in Slovakia that had collaborated with the Nazis; and there was an immense problem of re-peopling and re-organising districts from which the former German inhabitants were being driven out. The Government which set to work to tackle these problems was a coalition, including a wide range of parties, Slovak as well as Czech, under a non-party Prime Minister, Mr. Fierlinger. It announced a policy of complete equality between Czechs and Slovaks and, on the economic side, a programme which included the nationalisation of all major industries and large establishments, and an ambitious measure of planning under public control. The elections held in May, 1946, under conditions comparable with those of Western countries, resulted in the return of the Communists as the strongest party, with 40 per cent. of the votes in Bohemia-Moravia and 30 per cent. in Slovakia, and with a total of 114 seats. Next came the Christian Democrats, with a clear majority in Slovakia, but only a fifth of the votes in Bohemia-Moravia, and with 89 seats. President Benes's party, the Social Nationalists, won 55 seats, the Czech Social Democrats 37, and minor Slovak parties the remaining 5.

After the elections the wide coalition was maintained, but under a Communist Prime Minister, Mr. Benes being re-elected as President of the Republic. The Czechs have thus successfully demonstated the possibility of maintaining the parliamentary system, broadly in its West European form, while associating on close and friendly terms with the Soviet Union and falling within the Soviet sphere of influence in international affairs. They have also shown their capacity to plan for economic recovery and development on a basis which combines a large measure of nationalisation with the retention of small-scale private enterprise and of peasant agriculture. This is not to say that Czechoslovakia is not still facing very difficult economic problems. In the past, it has traded largely with Germany on the one hand and with its more agricultural neighbours to the south on the other; and the prosperity of its economy depends largely on the restoration of trade in both these directions. Czechoslovak production is indeed fairly well balanced between industry and agriculture, but not in such a way that the country can prosper by internal exchanges without a large volume of foreign trade. The Czechs have the strongest reasons for wishing to maintain close and friendly relations with both East and West, and not to be shut up within any exclusive system. The record of the Government since the liberation shows that they are well aware of this, and are doing their best, while recognising the paramount necessity of close relations with the Soviet Union, to keep on good terms with the West as well.

Austria

Lastly, among the countries which lie between East and West, there is Austria, now again disentangled from Germany and recognised as an independent State, but suffering under the acute difficulties caused by an occupation which has divided up its small territory into zones in the same way as Germany has been divided. Two outstanding facts in the Austrian situation are the still unresolved political conflict between Socialist Vienna—a capital city large out of all proportion to the rest of the country, because it grew to greatness as the capital of the defunct Austro-Hungarian Empire—and, in the working-class movement, the continued predominance of Social Democracy and the weakness of Communism. At first liberated Austria had a Government headed by a Socialist—the veteran Dr. Karl Renner; but in the General Election held in November, 1945, victory went to the People's Party, which won 85 seats as against 76 for the Social

Democrats and 4 for the Communists. A new Coalition Government headed by Dr. Figl, the People's Party leader, was then formed, Dr. Renner becoming President of the Republic. In Vienna itself the Socialists had a comfortable majority; but nationally the Catholic peasant vote carried the day against them. The Austrian Government, though recognised since its reconstruction by all the occupying Powers, has had a hard task to face. The country has never been really self-supporting since its establishment on the ruins of the Austro-Hungarian Empire after the first World War; and its situation is now complicated by the problems of disentangling its economy from that of Germany and of determining what industrial property in Austria is to be regarded as having belonged to the Germans and as being therefore subject to claims on reparations account, or even as war booty. There have been many troubles over this question in the area occupied by the Soviet Union, which includes Vienna; and the uncertainties of the position have delayed reconstruction.

In general, the alignment of Austria is culturally and politically with the West, rather than with the East; but, equally with Czechoslovakia, it needs to base its policy on friendly connections with both groups. Austria is greatly concerned with the common problems of the Danubian area, and cannot hope to prosper unless it can keep on good terms with the other countries concerned with the navigation and water-resources of the Danube. All the Austrian parties stand for complete severance from Germany; but should a federal Germany emerge, there would obviously be close connections between Austria and the South German States. The Catholic influence, which is strong in Southern Germany as well as in Austria, would make in this direction; and, though Social Democratic Vienna, with its large Jewish population, would not be similarly affected, the Austrian Social Democrats would also be more inclined to look westwards than eastwards for their closest international contacts.

The East, the West, and the Centre

The three countries last considered—Italy, Czechoslovakia and Austria—are three good and inescapable reasons why, however important the conception of a line across Europe, dividing East from West,[1] may be, no simple solution of the European problem can be achieved by making a sharp cut across the Continent, and parting it all into two separate 'spheres of influence.' Even if the conception of West European unity has deep social and political importance—and I profoundly believe that it has—it would be

[1] See Map on page 1020.

disastrous to conceive of it as an exclusive relationship, which would cut off the countries of the West sharply from those of the East, and would deny the possibility of any intermediate condition. That is one reason why, when I come to discuss the problem of West European unity,[1] I shall make it clear that I do not mean by it any exclusive federal relationship, which would deny to the countries taking part in it the right of simultaneous association with other regional groups. The purpose of West European unity, as I understand it, is not to divide Europe, but to make easier, by such common action as is practicable now, an approach to uniting it, within the wider union of the United Nations, and on terms that will allow different politico-economic systems and different conceptions of democracy to live together and to collaborate in tasks which call for supra-national action. On no other basis could I advocate closer unity among the Western peoples; for it would be the height of economic, as well as of political, madness to endeavour to line up the peoples of Europe in two unmediated and conflicting groups, when the plainest need of all is to bring them closer together and to promote collaboration between them on a foundation of mutual understanding and tolerance of different traditions and habits of mind.

[1] See Part VI. Chapters II and III.

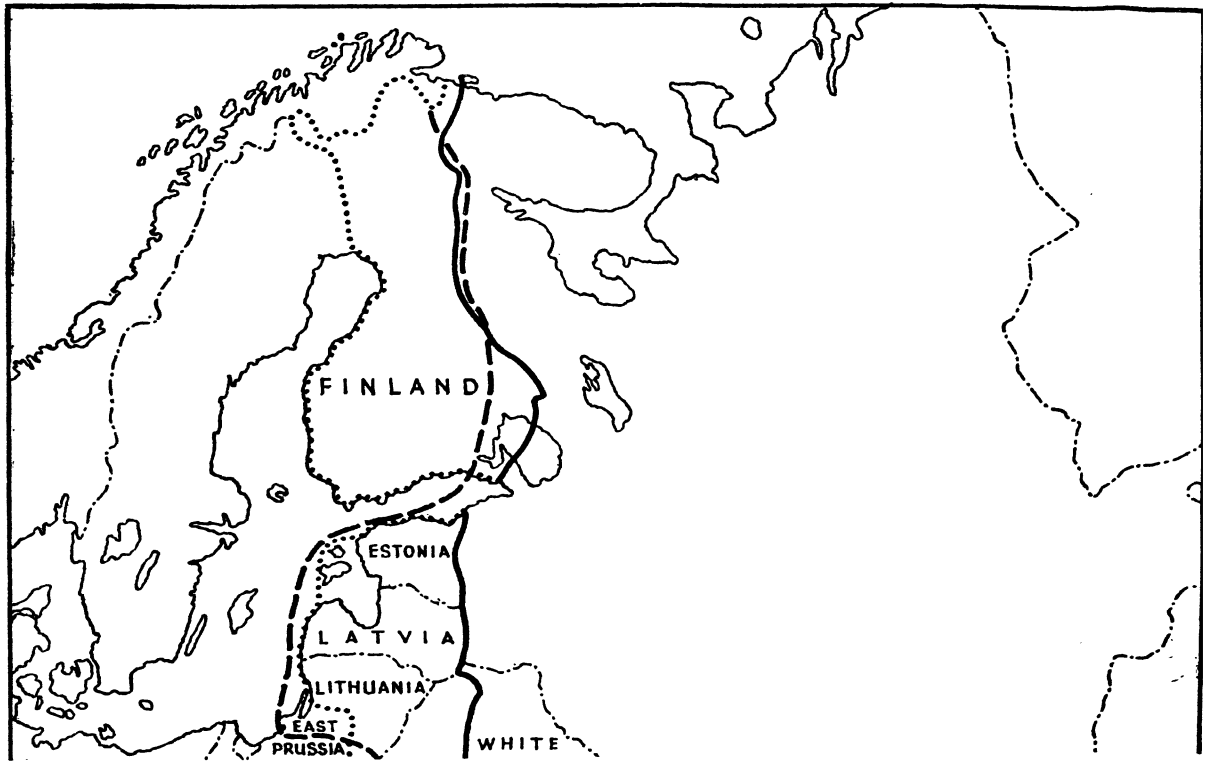
CHAPTER VI

THE SOVIET UNION IN WORLD AFFAIRS

THE SOVIET UNION, with its population in 1939 of 172 millions[1] spread over a land area nearly four times as great as that of all Europe west of its frontiers and nearly three times as great as that of the United States of America, is now unquestionably one of the two most powerful countries in the world. It has a high birth-rate, and is still at the stage of development at which population increase is likely to be accelerated by a fall in infant mortality as conditions of living improve. The League of Nations forecast, based on pre-war trends, puts the prospective population in 1970 at well over 250 millions; but even this total would leave the density very low. There is plenty of room for a vast increase in the number of people in the Soviet Union, even after full allowance has been made for arid territories incapable of either industrial or agricultural development at the present stage of human knowledge.

This vast population is poor. The standard of living in the Soviet Union is not easy to measure; but it is undoubtedly very low in comparison with the standards prevalent in Western Europe. The very rapid industrial development of the period since the Revolution, when the new rulers of Russia fell heirs to an utterly bankrupt and disorganised economic system, has not yet availed to lift the peoples of the Soviet Union out of their poverty. This is partly because the successive Five Year Plans of industrial expansion have been directed chiefly to building up a modern industrial equipment with a view to successful defence in war and to the increase of productive resources for the future, rather than to an immediate improvement in the standard of life. The Russian Communists deliberately decided that their first task was to develop and consolidate the Soviet Union's economic and military power, in order both to make their new order proof against destruction from outside and to raise productivity rapidly towards the levels already reached in more advanced countries. This involved a high concentration on the production of capital goods, and therewith a slow rate of expansion in the output of

[1] Excluding about 25 millions (1939) in territories since annexed to the Soviet Union.


FINLAND
ESTONIA
LATVIA
LITHUANIA
EAST
PRUSSIA
WHITE


RUSSIA
POLAND
UKRAINE
CZECHOSLOVAKIA
HUNGARY
BESSARABIA
ROUMANIA
RUSSIA'S
THREE WESTERN FRONTIERS
1914
INTER-WAR
PRESENT
Scale of Miles
50 0 100 200

consumers' goods. Such a policy was to a great extent forced on the Soviet Union both by the real danger of military attack—which actually came in 1941—and by the impossibility of securing the large capital loans from abroad which alone could have made practicable a simultaneous rapid increase in the supply of capital goods and of consumers' goods. The peoples of the Soviet Union had to tighten their belts in order to put their new system of government firmly on its feet in face of a world governed by influences strongly hostile to their system; and those critics who grumbled at its rulers for following the course they did should have been silenced when Hitler's onslaught of 1941 proved how necessary the policy had been.

The Soviet Union is still an Agricultural Country

There is a second reason, fully as important as the first, for the continued low standards of living in the Soviet Union in spite of rapid industrial development. The Soviet Union, with all its industrial expansion, is still predominantly an agricultural country, with most of its occupied population employed on the land. According to the Census of 1939 more than 46 per cent. of the total population belonged to collective farmers' or peasants' households, as against 35 per cent. belonging to the households of manual wage-workers and craftsmen, and 17½ per cent. to those of non-manual workers. Moreover, this figure of 35 per cent. included 2½ millions of agricultural wage-workers out of a total of 27 million wage- and salary-workers. Well over half the total occupied population was still employed in one capacity or another directly on the land, whereas in Great Britain the proportion so employed is only about 5 per cent., and even in the United States only 20 per cent. at most. A high proportion occupied in agricultural pursuits is usually, though not always (Denmark and New Zealand being notable exceptions), a sign of a low standard of living. It is always so where the land is cultivated mainly by traditional peasant methods and with much labour and little capital equipment. In the Soviet Union agricultural yields are still very low; and, though great efforts have been directed to mechanisation and to the adoption of more scientific agricultural methods, the task to be faced is so immense that the results in terms of productivity still remain small. The policy of agricultural collectivisation, which was carried through over most of the territory of the Soviet Union in the 1930's, was only beginning to produce its effect when much of the most fertile and best cultivated part of the land was overrun and laid waste by the Nazi

armies. Over and above this, the troubles accompanying collectivisation, which was resisted by many of the more prosperous peasants (the 'kulaks'), led to a great slaughter of livestock; and this change had been by no means fully made good when the country was plunged into war. The fighting, the evacuation, and the deliberate Nazi destruction brought about a further serious loss of livestock population, as well as much damage to the land itself; and during the war the peoples of the Soviet Union went very short of food, and could not have subsisted at all but for the rapid development of agricultural production in Asiatic Russia and in such parts of the European territory as escaped 'scorching' in the course of the struggle.

It is bound to take a considerable time to raise agricultural standards in the Soviet Union to those which have been reached in more advanced countries. To achieve this, there has to be a vast development of agricultural education and of the supply of agricultural technicians of every sort; and there has also to be an immense expenditure of capital both on the land itself and on farm buildings and agricultural machinery, and also on the improvement of rural transport. Road and railway building over an area as great as that of the Soviet Union are tremendously costly undertakings, and for the present it is not possible to spare for them more than a very limited appropriation of resources under the Five Year Plan. That there will be in time a very great rise in agricultural productivity there seems no reason to doubt; but the change cannot come quickly enough to prevent the average standard of living from remaining low for a considerable time to come, especially since war devastation has put the clock back and has made it necessary to do all over again many things that had been successfully achieved during the pre-war years.

War Damage and Recovery—The New Five Year Plan

Industrially, the Soviet Union has also vast war damage to make good. Wonders were accomplished in removing entire factory plants from the areas overrun by the Nazis, and in setting them up in places of greater security. But much could not be moved, both on account of shortage of time and transport and because many of the greatest installations were physically irremovable. The great dams which had been built on the Dnieper and elsewhere for the supply of electric power were broken, and have to be made all over again. The coal-mines of the Don and Donetz basins and, still more, the oil wells of the Caucasus, suffered very severe damage: so that to-day, despite great natural resources, the Soviet Union is suffering from shortage of coal and,

still more, of oil. Industrial production, which should have maintained its prodigiously rapid rate of increase during the pre-war period, is still a long way short of the actual level of 1940. No precise figures of current output are available; but some idea of the effects of the war on the Soviet Union's industrial capacity can be gathered from the figures of the new Five Year Plan that has been drawn up for the years 1946–50.

The Soviet Union's previous Five Year Plan was to have been completed in 1942, but was of course interrupted and shattered by the war. In a number of the key industries the total output which it is planned to reach by 1950 is substantially below what had been planned for 1942. This is in spite of the fact that the territory covered by the Plan has been considerably enlarged by annexations. For example, the output of iron was 15 million tons in 1940 and was planned to reach 22 million tons in 1942; but the planned output for 1950 is now only 19½ million tons. The planned output of steel falls similarly short (18 million tons, 28 millions, and 25½ millions), and that of oil much shorter still (31 million tons in 1940, a planned 48½ millions for 1942, and only 35½ millions planned for 1950). The estimate for coal is a good deal better, with an actual output of 166 million tons in 1940, a planned output of 243 millions for 1942, and a planned increase to 250 million tons in 1950; but even this is a marked slowing down of the rate of increase. It is said that the Donetz mines cannot be got back into full production until 1949. Electricity again shows a much slower planned rate of increase than under the previous plan. Output, which was 48 billion kwts. in 1940, was planned to reach 75 billions in 1942, and is now planned to reach 82 billions by 1950. All these planned estimates for 1950 are for the enlarged territory now within the Soviet Union.

This slower rate of expansion under the new Five Year Plan is not due to a diversion of resources from capital development to the production of consumers' goods. The Soviet Union is determined to carry on with its policy of rapid industrialisation and to make good the losses it has sustained; and this means continued shortage for the consumers, though not of course so acute a shortage as has existed since 1941. As the *Economist* pointed out in its review of the new Plan, the estimated production of 250 million pairs of shoes by 1950 will not give each consumer much more than one pair a year; but even this involves an expansion of output by 100 million pairs. The target outputs for most textile goods are actually lower than the targets set in the previous Plan. It looks as if the Soviet peoples, in the period of rebuilding that will cover the next five years, will have still to endure an 'austerity'

far beyond anything that we have experienced in Great Britain.

This austerity may be slightly, but cannot be more than slightly, mitigated if the Soviet Union uses some of its power to produce capital goods for the purpose of supplying some of the needs of its backward neighbours in Eastern Europe, and receives consumers' goods in return. There is some evidence in recent Soviet policy that such a development of trade relations may be of some importance; but the supplies of consumers' goods available for export from these countries cannot be high. Poland can send textiles from the Lodz region, and Czechoslovakia may also be able to help; but it is not easy to see any other sources of considerable supplies. Mainly what the Soviet Union can hope to get from trade with its neighbours in Eastern and Southern Europe an raw materials of which there is a home shortage, including of course oil from Roumania, Austria, and Hungry. Oil constitutes a serious problem; and the falling off of Soviet oil production has obviously much to do with the recent struggle between British, American and Soviet would-be developers of the oil resources of Northern Persia.

The Soviet Union needs Peace

In face of the great losses sustained during the war, and of the long time needed for full recovery, the Soviet Union has obviously as strong an interest as ever in avoiding war, and it is fantastic to suspect the Soviet leaders of harbouring aggressive military designs. Soviet policy, as far as it is based on conceptions of power politics, is conceived in terms of defence and not of war-making. The Soviet leaders are still afraid of war being made upon them, especially as they have been denied the atomic weapon which is a practical monopoly, for the present, of the United States. There is much talk in America that serves to encourage these fears; and this is especially the case with many of the utterances of American military leaders, who make no secret of preparing for a possible war against the Soviet Union, as well as with the more intransigeant spokesmen of aggressive capitalism. The Soviet leaders have not forgotten how many encouragements Hitler was given before 1939 to turn his armies against Russia and to come to terms with Western Europe; and they still regard Great Britain, despite its change of government, as a potential plotter with the United States in a combined capitalist effort to destroy Communism as a world force. This suspicion often looks like aggressiveness, because it finds expression in a policy of detaching the countries of Eastern Europe as far as possible from the West, and of attaching them as firmly as possible to the Soviet Union, because it leads to Soviet opposition to 'imperialist' designs, real or supposed, of Great

Britain and of the United States in the Eastern Mediterranean and in Asia, and also because it leads the Soviet Union to oppose strongly all attempts at closer unity in Western Europe, under the impression that they are threats to its own security.

The new Five Year Plan appears, to an even greater extent than its predecessors, to aim at the development of machine tool production, which showed its deficiencies during the war. The Plan also continues, and perhaps intensifies, the pre-war trend towards industrial decentralisation. This has a double implication. It is partly an attempt to speed up the general pace of development throughout the area of the Soviet Union by equipping every district with its own industries; but it is also partly designed to remove as much as possible of the Soviet Union's economic apparatus away from the vulnerable frontier districts, even though they are now screened, much more than they were before 1939, by buffer territories belonging to countries at present closely associated with the Soviet Union.

In fact, the motive of fear is present in almost all that the Soviet Union does or attempts. This fear is of external aggression, designed to destroy the Soviet power. Internally, the only possible threat to the continued authority of the present régime would come from the Army; but this potential threat of military dictatorship, though it was much written up from time to time by hostile observers, does not seem ever to have been real, and in any case full precautions have been taken against it. The dominant power in the Soviet Union remains, and is likely to remain, the Communist Party; and there are no longer inside its frontiers any forces of disruption that are of serious account.

Nationalities in the Soviet Union

This is a highly remarkable fact in view of the large number of separate nationalities of which the population of the Soviet Union is made up. It is generally agreed, even by many who strongly dislike the general achievements of the Soviet Union, that its handling of the problem of nationalities has been highly successful. In effect the Soviet Union, by giving the fullest recognition to distinct national cultures, over small areas as well as large, has succeeded in enlisting nationalist sentiment strongly on the side of the great federation of peoples which it is, and has not been troubled at all by separatist national movements since its very early days. Some people, who are ready to turn everything to the discredit of the Soviet system, will doubtless argue that this immunity has been due to the ruthlessness with which every kind

of opposition has been liquidated; but it is not very plausible to argue that nationalist feeling could have been entirely prevented from expressing itself within the country, if it had been strongly present. At one time, a good deal used to be heard about Ukrainian and Georgian nationalism as forces capable of compassing the destruction of Communist control; but nothing of any significance has emanated from them in recent years.

Is the Soviet Union 'Totalitarian'?

This success in binding a large number of peoples, with widely differing cultures and levels of civilisation, together into a single politico-economic system is the Soviet Union's most unequivocal and most widely accepted achievement. On other matters, judgments are still utterly diverse. There were many before 1941, and there are beginning to be many again now that the Nazi danger is done with, who contend that Hitler and Stalin are much of a pattern and denounce both Hitler's Germany and Stalin's Russia as 'totalitarian,' anti-democratic régimes. On the other side, there are many besides professed Communists who regard the Soviet Union as the leader of the forces of world Socialism and as far more democratic in essentials than either Great Britain or the United States. It is an undoubted fact that the Soviet Union's popularity in Great Britain has noticeably waned since the end of the war—mainly because many Labour supporters have resented the implication that Labour's advent to political power has made no real difference to British world policy, and that in world affairs Great Britain still stands beside the United States as the exponent of capitalism. But even when full account has been taken of this revulsion of feeling, it remains true that there is in the main body of the active working class, in Great Britain as elsewhere, a deep feeling of sympathy with the Soviet Union, and of determination to take no part in any action directed against it. There is, however, overlying this feeling, but by no means doing away with it, a sense of disquiet, which, based mainly on what the ordinary man hears and reads about Soviet policy in foreign affairs, also makes people more ready to listen to allegations that Soviet internal policy has ceased to be conducted in the interests of the working class and has come to be that of a narrow dictatorship thinking purely in terms of power over the masses. This opinion has indeed spread to some who were formerly loud in their praises of the Soviet Union: it finds its most forceful expression in George Orwell'ssatire, *Animal Farm.*

Let us face the full force of the charges that are made against

the Soviet Union's internal policy, and then come back to the discussion of its attitude in international affairs. The thing that most British observers who began by feeling a strong sense of fellowship with the Soviet Union find hardest to stomach is the fate that has overtaken so many of those who were once the leaders of the Communist Party. They found the great treason trials of the years before 1939 incomprehensible. It was very difficult for men brought up in English habits of thinking to understand either how the prisoners could get up in court and make such startling confessions as they did or how, if the confessions were true, they could ever have behaved in the extraordinary ways in which they seemed to have behaved in fact. This failure of comprehension was partly due to the entire lack in Great Britain of any experience of underground conspiracy, and of any knowledge of its curious psychological effects. It was also due partly to a sheer difference of temperament, the existence of which will be admitted by any English reader of Russian novels. Nevertheless, when all allowance has been made for these factors, the trials do remain difficult to understand, and it does remain hardly believable that some of the reports of sabotage attributed to the conspirators—to say nothing of some of the taller stories told against Trotsky—were well-founded, and hardly possible to reject the idea that there was an element of hysteria among both prosecutors and prisoners. I myself, for what my view is worth, wrestled hard with such evidence as I could get, and came in the end to the conclusion—largely based on Radek's testimony—that the trials were in no sense mere frame-ups, and that there had been actual and at one time formidable plotting against the State. I also dismissed as sheer nonsense the allegation that the prisoners had been tortured or drugged into confessing; for I cannot conceive how such an opinion could survive a careful reading of what the prisoners said.

This, however, still left the main question open. The prisoners had been plotting against the State: that was clear. But what was the real character of the State power against which their plots were directed? Had Stalin and his associates really "betrayed the Revolution," or had they not? Nothing that was said either in the course of the trials or at other times against the 'Stalinist dictatorship' at all convinced me that such a thing had occurred. I myself felt, and continue to feel, a strong temperamental antagonism to Stalin. I do not like his mind; and I cordially hate the atmosphere of hero-worship with which he obviously loves to surround himself, or, if he does not love it, regards as good policy. The continual adulation of the 'Generalissimo' makes me feel sick; it offends my radicalism, which is my deepest emotional response. But to dislike

Stalin's mind, or the adulation he exacts, or even many parts of his policy, is an entirely different thing from regarding him as an apostate from his revolutionary faith, or as a mere seeker after personal power; and I can discover nothing in his conduct that could legitimately brand him with these vices. As far as I am able to see, the internal policy of the Soviet Union has been consistently directed in the interests of the main body of the people and has aimed, first at consolidating and securing the victory of the Revolution, and secondly, at raising standards of productivity with a view to advancing the standards of living as far and as fast as this can be done consistently with the first object. Obviously, there has been a revulsion—which I dislike—from the first fine flourishing of Socialist idealism and a return to the greater use of material incentives to labour and to greater recognition of inequality in both payment and education. I am not in a position to judge how far these steps were avoidable; and in any case I can see no evidence in them that the Soviet Union is building up a new system of class exploitation. Inequalities, if they are not too extreme, do not constitute class differences; and inequalities of earned income are very different from inequalities based on incomes from property descending from father to son. In these respects the Soviet Union, as far as I can tell, remains consistent to the Marxist faith; for Marx always insisted that at its first stage the Socialist Revolution would need to strike hard at incomes from property, while leaving earnings to be based on the different values of different men's contributions to the social product. Even quite big differences of income seem to me to furnish no evidence of backsliding from Marxist Socialism on the part of the Soviet Union. Moreover, it ill becomes those who defend in their own countries large inequalities arising out of the possession of property to cast stones at the Soviet Union for recognising differences of earned income.

Recent educational changes, including the reimposition of fees for higher education, are more disturbing. But, here again, can we, who still tolerate the 'two nations' in our school system and leave much of the opportunity for higher education to depend on the parents' ability to pay fees, legitimately cast stones? The Soviet Union, whatever the limitations of its educational methods may be, is conducting the vastest and most democratic experiment in higher education that the world has yet known. Maybe it had to do something to keep the demand down to the practicable supply of good teachers and of necessary equipment; and maybe an extensive system of scholarships, with low fees for other students, was the best immediate answer it could devise.

Free Speech and Democracy

Much more serious, from the standpoint of Western critics, is the undoubted suppression of freedom of speech and of association wherever these involve any possibility of attack on the Government in power. Our Western conception of democracy regards free speech and freedom of association as the very foundations of democratic government. The leaders of the Soviet Union clearly do not; and on that ground it comes easy to us to accuse them of acting in an undemocratic spirit. Even, however, if we do so attack them, let us try to understand their point of view, and, in order to do this, let us make sure that we understand our own. Freedom of speech and of association are rights which our democrats fought for, and to a large extent won, under a system of government that was clearly not democratic, and that no one claimed to be democratic. They were demanded, and largely won, as rights of the democratic opposition to make its voice heard and to influence the actions of the undemocratic Governments and Parliaments, based on a narrow franchise, by which we were ruled. Because we won these rights under an undemocratic system, we recognise them as rights and are prepared to concede them, within limits, to our opponents when we hold the power. The Russians, however, did not at any point win these rights effectively under Czardom. They were denied their exercise right up to the Revolution, and knew well thereafter that, if the Revolution were overthrown, they would be denied them again. Accordingly, to ask them to concede these rights to their opponents is not to ask them to concede rights which they have ever successfully claimed for themselves. It is to ask them to behave towards their critics as they have never been behaved towards, and as they know their critics would not behave towards them if the roles were reversed. The Revolution could not have won power except by being intolerant; and it is doubtful if it could possibly have held power after its initial victory except by taking over, and applying to its own purposes, the intolerance of the preceding régime. The Soviet Union inherited intolerance from Czardom; and it is unrealistic to judge it as if it had the same historic reasons as we have for venerating free speech and freedom of associative action.

Democracy, in the Russian view, is based not on these freedoms which we, but not they, used as stepping stones to democratic power, but on successful class revolt. Russian democratic thought accordingly emphasises the factor that brought it to power—that is to say, it puts the stress on class and on class-solidarity. The notion of a highly disciplined working class, under strong leadership,

substituting its collective power for the class-power of the old régime, is as fundamental to the Russian conception of democracy as the freedoms of speech and of association are to ours. They lead straight to the conception of the single party, following solidly an accepted 'party line,' carrying internal debate up to the point of decision on policy, and then all acting as one on the decision reached, sinking private differences of opinion in the interests of the class. These notions are repugnant to most of us, with all our highly developed belief in the value of the individual as a judging person, and with our faith in spontaneous private and group action as an instrument of piecemeal reform. But equally these notions of ours seem treason to democracy to a people whose experience has been that of disciplined underground struggle, in which failure of solidarity meant betrayal and death or exile.

It is legitimate for us, believing in the value of our own values and in the high merits of a society which gives wide freedoms of speech and association, to hope that these virtues will presently achieve recognition in the Soviet Union, as soon as its leaders are not afraid. It is legitimate for us to hold that, when the leaders in the Soviet Union no longer believe that there is a world conspiracy to overthrow Communism and to bring back the capitalist autocracy which is their enemy, they will begin to recognise the value of these freedoms. But it is quite absurd to dismiss the Soviet Union as undemocratic because it does not practise these virtues now. How could it, in the light of its history; and, if it had practised them, would it have been able to survive?

There are other kinds of democracy besides those which, because of the historical conditions of our own struggle for democracy, we have learnt to embody in our conception of it. The substitution of the organised class-power of the Russian proletariat, organised in the Communist Party, for the class-power of the Czarist system was a real democratic victory, though it did not result in the establishment of democratic government on the Western model.

The Position of the Communist Party

It can, of course, still be argued, by those who accept what I have just been saying, that the Soviet Union is not a democracy because its Communist Party does not represent the might of the organised working class, or because, even if it does, the working class which it represents is not a majority of the whole people. To the second of these criticisms the answer—which seems to me valid—is that the Communists were right in arguing that it was the task of the industrial workers to lead and to arouse the

peasants, who were incapable, without them, of effective organised action, and that in fact, when the Revolution had been made, the Communist Party showed a keen desire to broaden its basis by enrolling as many peasants as it could, and by doing all it could to train up leaders from among the peasants. To the first criticism the answer is that the Communist Party, even if it includes only a minority of the workers, does undoubtedly include most of the more active and intelligent among them, and that its members show no sign of being dissatisfied with the democratic character of its internal organisation, or of feeling themselves to be merely bossed about by a gang of leaders who do not represent their will. The part played by the Communist Party in the working of the Soviet Union could not be played unless there were literally millions who believed in it and, because of their belief, worked hard and willingly to spread its influence into every nook and cranny of the social structure of the country.

Ah, say the critics, but so did Hitler depend on the willing service of millions of members of the Nazi Party; and where is the difference? The difference, as I see it, lies both in the social objectives and in the internal organisation of the two parties concerned. The Communist Party stands for a conception of welfare, to be achieved by collective development and proper use of the national resources. It does not stand either for war or for any notion of predatory superiority over other men or nations. It is moreover organised on a principle of internal democracy, even if State-worship has done something to interfere with the practice of that democratic principle. I write, not as an adherent of the Communist Party, but as one who strongly dislikes its doctrine of 'democratic centralism.' But I can see nothing in common between it and the Nazi Party, beyond the obvious fact that they are both modern mass parties using modern propagandist techniques.

I do, then, accept Soviet democracy as a legitimate form of democracy, and reject altogether the notion that it is merely autocracy in disguise. But of course, it is not, at any rate in the shape in which it exists in the Soviet Union, a form of democracy at all appropriate to Western conditions, or fitting in with the democratic traditions of the West. And, equally, of course, it has become in practice less democratic under the immense strain of total war. How could it have escaped doing so; and how can it for a long time avoid carrying with it the stigmata of its great ordeal?

Soviet Foreign Policy

I come back now to Soviet international policy, in the light of what has been said about Soviet policy in its internal aspects. The

external policy of the Soviet Union has two main objects—the prevention of war on the grand scale, and the extension of Soviet influence. The first of these objects is pursued in the light of a conviction that the only real danger of world war, as long as Germany is kept thoroughly disarmed, is that of a concerted attack on the Soviet Union in the interests of world capitalism, and that accordingly it is desirable to foster division and weakness among the potential members of an anti-Communist world crusade. The Soviet Union is perfectly sincere in desiring to prevent the United Nations Organisation from breaking down, because a breakdown would obviously increase the danger of war; but it is also set on preventing the development of U.N.O. into an international authority with effective control over the behaviour of the member States, because it fears that such authority might be turned against it by a majority of capitalistically minded States. From this fear comes its insistence on the power of veto, its refusal to contemplate such proposals as those of the United States for the control of atomic energy, and its hostility to any increase in the powers accorded to the lesser States, which it fears might be organised into an anti-Soviet *bloc*. These features of Soviet Union policy frequently give the appearance of crabbing U.N.O. But it is very far from the desire of the Soviet diplomatists that U.N.O. should break down. They want it to succeed, in its function of preventing war; but at the same time they dare not trust it to act by a majority, either of the whole Assembly or of the major States. Regarding the Soviet Union as isolated, except for its immediate satellites in Eastern Europe, in a hostile world, they feel it to be indispensable to preserve the right of veto intact, even when insistence on it threatens to stultify the entire working of the new international system.

The Soviet leaders can adopt this attitude the less reluctantly because they do not believe in the possibilities of constructive economic co-operation between countries working under radically different economic systems. They envisage the entire relationship between themselves and the world of capitalism, in which they include Great Britain as well as the United States, as one of bargaining and not as one of co-operation in a common cause. They are prepared to make bargains with capitalism, wherever they can see an advantage to be gained by doing so; but the advantage must accrue to the Soviet Union and to its peoples and allies, and advantages that will accrue to the peoples of the capitalist countries do not count. Capitalist groups seeking powers of economic exploitation in backward areas have never been moved by considerations of advantage either to the peoples of these areas

or to the working classes of their own countries. In much the same way, the leaders of the Soviet Union think in terms, not of the mutual advantages that will accrue to others, or to the world as a whole, from any suggested form of international collaboration, but only of such advantages as will accrue to the Soviet power and to the peoples living under it. They take up this attitude because it is for them axiomatic that the well-being of the peoples of the world depends on the victory of Communism over capitalism, and because this constitutes a denial of the notion that there can be forms of international co-operation that are good in their effects, irrespective of their tendency to further the victory of Communism in the countries at present living under the capitalist system.

The Soviet View of U.N.O.

This is a view of U.N.O. quite different from the view held by its principal British upholders, including the British Labour Party. For the leaders of British Labour are disposed to regard U.N.O., not merely as an instrument for the prevention of war, but also as a means of furthering constructive co-operation between nations living under widely different social and economic systems. They do not, like the Soviet leaders, regard the victory of proletarian Socialism as a necessary precondition of constructive international action; they think of the U.N.O. Assembly, of the Economic and Social Council, and of the other organs built up under the auspices of the United Nations as embryonic international Parliaments, in which, as in their own Parliament, they expect to find an Opposition as well as a party in power, and to make decisions by voting, following upon open discussions, in such a way as often to accept compromise with the opposing groups, in order to get a working solution that will not provoke undue resistance. In effect, the British, and most of the Western, leaders think of U.N.O. on the analogy of a national Parliament with more than one party in it, whereas the Soviet leaders regard any body possessing these characteristics as *not* like a Soviet, and as unfitted to advance beyond mere bargaining to any sort of real co-operative action.

It follows from what has been said that the Soviet Union's general attitude in external policy will be one of pushing, as far as it dares, for its own solution of every problem that comes up, and of yielding only when, and as far as, insistence on its own solution endangers the very survival of the international machinery for the prevention of war. It is, however, of the essence of the Soviet Union's position in world affairs not to allow this machinery to be

destroyed; and accordingly its representatives will, in the last resort, accept within very wide limits any concession that they regard as necessary for its preservation. They will always, however, give way at the last moment, after exacting every concession which they can induce other countries to make; and this will continually tend to give the Soviet Union the appearance of obstructing the effective working of the U.N.O. system.

In particular, it will always seem to the Soviet leaders fully legitimate to give all the backing they dare give to any force that will make trouble for capitalism or imperialism in the areas still subject to such influences. They will abet, as far as they dare, every nationalist movement of revolt against an imperialist power, not only because their sympathies lie with these movements, but also because they regard the weakening of imperialist control as a valuable means of strengthening their own world position, and hope, by embarrassing the imperialist countries with colonial revolts, to make them less able to spare energy for an attack on the Soviet Union or for extending their operations in the countries which fall mainly within the Soviet sphere of influence. Nor will they think shame to blow alternately hot and cold on the nationalist movements or on the other forces of revolt in the capitalist world, according to what seems to them expedient from the standpoint of their own strategy.

The consequence is a shifting policy which often shocks the 'liberal' idealists of the Western countries and bewilders simple-minded people who do not share the underlying Communist philosophy. For the foreign policy of the Soviet Union makes sense only upon the assumptions on which it rests—that world capitalism will overthrow the Soviet power if it can, and that no constructive collaboration is possible between Communist and capitalist countries—though bargaining without war is possible, and concerted negative action for the prevention of war is also possible, as long as it is conceived in terms of bargaining and not of common solidarity. If these premises are once granted, the rest logically follows, including both the insistence on the right of veto and the pushing of difference almost to the point at which breakdown would become unavoidable—but never quite to that point. Whether this attitude is justifiable in the light of the world situation and particularly in the light of the strength of the anti-Communist forces in the United States and in Western Europe, I must leave the reader to judge. It is less important to say whether it is justifiable than to recognise clearly that it exists, and that there is for the present no way of escaping the consequences of its existence.

For, if war is to be prevented from recurring on a world scale, the peoples of the world must use to the full such means of prevention as are open to them, and must not refuse to employ these means on the ground that they ought to be much better than they are. U.N.O. cannot work well as long as one of its main constituents regards it merely as a bargaining machine and denies the possibility of using it as an agency for constructive co-operative effect. But even U.N.O. thus hobbled is surely very much to be preferred to nothing at all.

The Soviet Union, the United States, and Ourselves

The only danger of a third World War that presents itself arises out of the possibility of armed conflict between the Soviet Union and the United States. Other nations would undoubtedly be drawn into such a war, if it were to break out; but essentially it would be a war between these two, whatever allies each might find in the struggle. It would, moreover, whatever its outcome and its effects on the two main belligerents, be plainly a sheer disaster for the rest of the world, and above all for the former Great Powers of Europe, which have lost their effective standing on a level with these two giants. At any rate, it would be a supreme disaster for both France and Great Britain, on whichever side they were ranged. It would be so because both France and Great Britain are too tired and weakened by the wars they have fought already to have any prospect of facing another without sheer collapse, and also because neither of them could hope to enter such a war as a whole-hearted supporter of either of the main belligerents—so that there would be added to the disaster of international the high probability of civil war, or at the very least of fundamental divisions that would tear their societies to pieces.

If, in such a war, Great Britain or France were on the side of the Soviet Union against the United States, nearly all the Roman Catholics and the great majority of the upper and upper middle classes would be in an attitude of active disloyalty to the Government, and in all probability the Labour Party itself would be split —so deep is the antagonism which some of its supporters feel to Communism and to the totalitarian elements in the Soviet doctrine. If, on the other hand, the British Government were in arms against the Soviet Union, a large part of the British working class would be definitely against it, and would be doing its best to hamper the war effort—how large a part depending on the circumstances under which the war had broken out, and on the effectiveness of the propaganda carried on for and against it. At any rate, the division would go deep enough to prevent the

effective mobilisation of the national resources, and quite possibly it would go to the length of actual civil war.

The plight of France would be even worse, both because of the greater exhaustion which the country has suffered in the two World Wars and because internal divisions would be even deeper than in Great Britain. Here, neither Catholicism nor Communism is a dominant political force: in France these two creeds form the basis for two of the three great parties which hold the allegiance of the largest sections of the people. War between the Soviet Union and the United States, with France involved in it, would split the French nation into contending factions so bitterly opposed that sheer catastrophe would be inevitable.

It can be argued that the very disastrousness of war between the world's two leading States, from the standpoint of the States that share with these two the main responsibility for making the United Nations Organisation a successful messenger of peace, is a sufficient reason why war should not occur. It is indeed a reason why Great Britain and France will evidently do all they can to prevent war; but that is not at all the same thing. The critical question, as we have seen, is whether two great expansive systems, the one based on private capitalism and the other on Communism, can go on existing side by side, when each of them is bound to be attempting continually to bring more and more of the rest of the world under its predominant influence. The chance that they can do this depends, as we have seen, to a great extent on the success of other important countries in making plain to both the contestants that they mean, without challenging the superior power of the two giants, to resist absorption by either, and to continue to develop their own ways of living in independence of both. This the lesser countries cannot hope to do if they remain isolated one from another; for isolation will only make their internal politics a faction-fight between the rival supporters of the American and Soviet ways of life. They can stand out against absorption or internal disruption only if they can make an independent way of living for themselves, over a large enough area of close collaboration to give themselves a chance of developing effectively their own answers to the problems of the modern world. Or perhaps I should say rather that they must set out to create for themselves not a single grouping, apart from the two predominant powers, but rather several groupings, corresponding to different regional conditions and traditions of community—one in Western Europe, a second in India and Southern Asia, and a third in China and Japan—unless indeed these latter can be successfully fused into a single group.

These needs will exist, whatever the course of political development may be in the United States and in the Soviet Union. But what happens in these two countries will of course greatly affect the requisite forms of development and grouping in the rest of the world, and the relations to them of such regional groups as may come into being elsewhere. It is therefore necessary, in considering the general world outlook, to make as good an estimate as we can of the tendencies that are asserting their influence in them. This will be attempted for the United States in a later chapter: in the present chapter I have tried to make what sense I can of current trends of opinion and policy in the Soviet Union and in the areas mainly under its influence.

This has been a difficult task, because throughout the war the peoples of the West have known all too little of what has been going on in the Soviet Union, with the consequence that different observers have put quite irreconcilable interpretations on the course of events. There are some who contend that Russia has ceased, for all practical purposes, to be a Socialist country and has reverted to the old pan-Slavist ideas of the Czarist epoch. According to these Cassandras, the Soviet Union has now to be regarded simply as a great military power, with designs of world conquest, and with no more regard than earlier militarist empires for the welfare of the common man, either at home or abroad, or for any idea of world collaboration in the arts of peaceful progress. Stalin is, in this view of the situation, simply another Napoleon, or even another Hitler, dreaming of world conquest, and with no higher ideal than that of military domination over all the peoples.

The Aims of Soviet Policy

This view seems to me to be utter nonsense. Even if some of the leaders of the Soviet Union are dreaming of world dominion, their dream, I feel sure, is very different from that of previous would-be lords of mankind. I can see no evidence that they have in any degree ceased to be Socialists, or to pursue the ideal of Socialism in the form in which they have held it from the first. The world dominion at which they are aiming is not one which would make the Soviet Union master of the world: it is the victory of the world Socialist revolution as they understand it. They want, in every country to which they can make their influence extend, to destroy landlordism and capitalism and to set up a proletarian dictatorship based on the public control of the resources of production and leading to their use for the collective benefit of the 'workers and peasants,' regarded as a combined class with which lies the historic succession to capitalist-imperialist rule. Stalin and his

collaborators have by no means given up the Marxian philosophy with which they began. They are acting ruthlessly in the spirit of that philosophy, and have good Marxian warrant for everything they are attempting to do. The Socialists who deny this, and profess to regard the Soviet leaders as apostates from Socialism, are in effect denying that Marxism is Socialism—by which they mean that when they see Marxism being put into practice with real power behind it, they do not like it.

What they dislike about it is, first, its stark denial of their values and of their traditional morality, which they have inherited from Christianity and to some extent from a pre-Christian ethic that found its finest expression in ancient Greece. The heart of this morality is care for the individual, and belief in the supreme importance of the individual soul. This belief has been traditionally associated in Christian theology with belief in an after-life; but it is not inseparably linked to such a belief. It is fully possible to hold firmly to the ethical tradition of Western civilisation while discarding all faith in the notion that the individual is destined to survive bodily death. What is not possible is to maintain both the traditional faith in the supreme value of the individual and the Marxian faith in the supreme efficacy of the class. And it is, I think, the case that in the Soviet philosophy the class, or when class has been transcended the whole people, counts for everything, and the individual for so little as to amount practically to nothing at all.

This does not mean that Stalin, or those who think like him, do not care what happens to 'people,' or whether they are happy or not. I am sure he cares a great deal. But he thinks, and feels, about 'people' statistically, and in the mass, and not as units, each of whom is an independent repository of 'rights.' Just as Jeremy Bentham scoffed at the rights of man, and preferred as an alternative principle, 'the greatest happiness of the greatest number,' so the Marxist stands for a doctrine of 'utility' which makes the individual a mere statistical unit in a calculation of goods and evils. The difference is that, whereas Benthamism counted heads, and thought in terms of adding up individual units, Marxism sets out from the conception of the 'most numerous class,' regarded as a plural unit, and sees the individual only as a fraction of the class —with the incidental, but highly important, result that individuals who do not belong to the right class do not get counted at all, nor do their pleasures and pains get reckoned into the sum of goods and evils. This seems to the Western Socialist, as the heir of the Western 'liberal' tradition, a grossly immoral doctrine; and so, in the last resort, it is. But we have still enough glass-houses of

our own for it to be most unwise on our part to spend our time heaving bricks at the glass-houses of other nations. Our task for to-day and to-morrow is to make the most of every chance of international co-operation, however disappointing its limitations may be to our own hopes, and in particular steadily to look for what is best in the great Russian achievement rather than for what is worst, because it comes out of the evil Czarist tradition to which the Soviet Union has fallen heir.

A Soviet Union Election. General Election. Figures for Constituent Soviet Republics, 1946

Soviet Socialist Republics	*No. of registered voters*	*Percentage of voters who polled*	*Percentage of votes for candidates to Soviet of the Union*	*Percentage of votes for candidates to Soviet of Nationalities*
Russian S.F.S.R.	56,851,348	99·86	99·22	99·25
Ukraine	20,613,669	99·84	99·08	99·03
Byelo-Russia	4,043,284	99·83	99·37	99·37
Azerbaijan	1,420,360	99·94	99·72	99·43
Georgia	1,941,151	99·93	99·90	99·82
Armenia	643,733	99·90	99·71	99·68
Turkmenia	622,843	99·83	99·74	99·51
Uzbekistan	3,106,589	99·90	99·79	99·76
Tajikistan	725,536	99·97	99·80	99·62
Kazakhstan	3,302,139	99·90	99·56	99·60
Kirghizia	778,951	99·81	99·54	99·12
Karelo-Finnish S.S.R.	210,011	99·93	99·43	98·83
Moldavia	1,294,667	99·76	99·62	99·46
Lithuania	1,378,951	91·78	95·38	95·46
Latvia	1,248,411	99·16	98·81	98·93
Esthonia	770,899	98·71	94·59	94·36
	98,952,542	—		

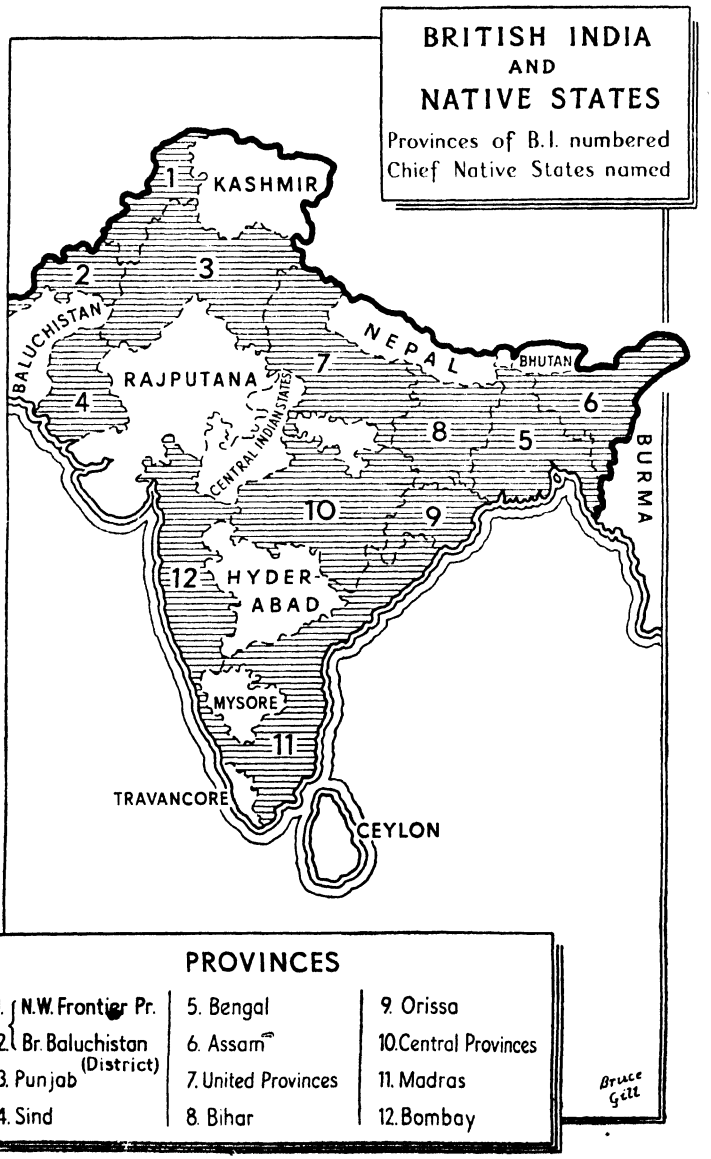
Note. (*a*) the clear majority of electors in the R.S.F.S.R. over those in all other areas; (*b*) the exceedingly high percentage of votes recorded; (*c*) the enormous majorities in all areas for the candidates included in the official list of Communist and non-party supporters.

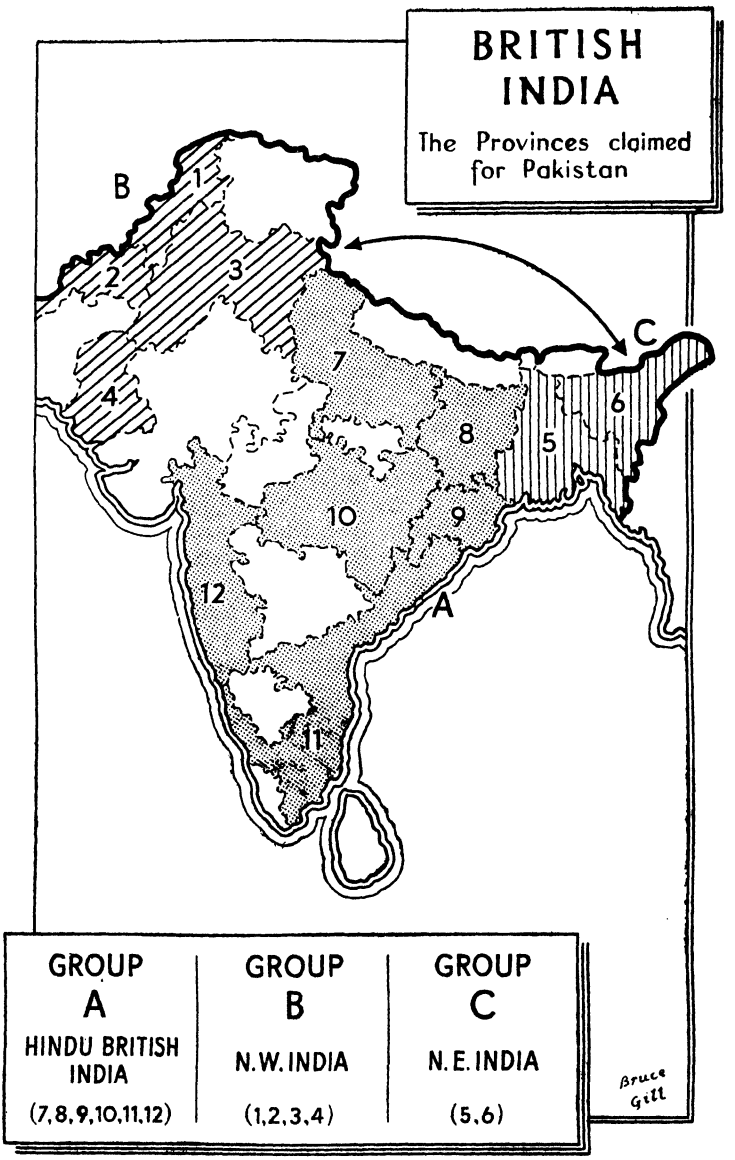
CHAPTER VII

INDIAN DEVELOPMENT—A TEST CASE

INDIA IS A COUNTRY of nearly four hundred million people, of whom about three-quarters live in the British Indian Provinces and the remaining quarter in numerous native States, ranging from considerable countries, such as Hyderabad and Mysore, to tiny stretches of land with a mere handful of inhabitants. The country is inhabited by numerous peoples, differing widely in culture and in religion, and also in standards of living. The outstanding division between Hindus and Mahometans—which has given rise to the demand for partition and for the establishment of a separate State of Pakistan—is only the most important of a number of cleavages which make Indian unity difficult. At the outset, I do not propose to discuss these questions, or the great question of Indian self-government either in association with or apart from the British Commonwealth. For the moment I am concerned only with theeconomic aspects of the problem of India; and in this connection there is little doubt that the whole country needs considering as one. It is so considered in all the plans of Indian economic development that I have studied, notably in the so-called 'Industrialists' Plan' put forward by Messrs. Birla and Tata and a number of other leading Indian capitalists, in the 'People's Plan' of Mr. M. N. Roy's Indian Federation of Labour and Radical Democratic Party, and in the preliminary proposals proposed under the auspices of the Government of India.

The peoples of India are terribly poor. The vast majority of them live by working on the land, or in close connection with land work; and the vast majority of Indian agricultural holdings are very small. Holdings of two acres, or less, are very common; and most of these tiny holdings are cultivated with the aid of very primitive implements. Most Indian cultivators are tenants, paying rent to a landlord under one or other of the three main systems of land tenure. The commonest system is that of 'Zemindari' tenure, under which the cultivator pays rent to a Zemindar, who is in turn responsible for the land revenue payable to the Government. The second system—'Mahalwari' tenure—is based on collective holding of the land by bodies of co-owners, who are jointly and severally responsible for payment of land revenue. Under the


BRITISH INDIA
AND
NATIVE STATES
Provinces of B.I. numbered
Chief Native States named
1
KASHMIR
2
3
BALUCHISTAN
NEPAL
BHUTAN
RAJPUTANA
7
4
6
8
5
CENTRAL INDIAN STATES
BURMA
10
9
12
HYDER-
ABAD
MYSORE
11
TRAVANCORE
CEYLON
PROVINCES
1. N.W. Frontier Pr.
2. Br. Baluchistan
3. Punjab (District)
4. Sind
5. Bengal
6. Assam
7. United Provinces
8. Bihar
9. Orissa
10. Central Provinces
11. Madras
12. Bombay
Bruce Gill


BRITISH INDIA
The Provinces claimed for Pakistan
B
C
A
1
2
3
4
5
6
7
8
9
10
11
12
GROUP A
HINDU BRITISH INDIA
(7,8,9,10,11,12)
GROUP B
N.W. INDIA
(1,2,3,4)
GROUP C
N.E. INDIA
(5,6)
Bruce Gill

third, or 'Ryotwari' system, land is supposed to be held directly under the Government by the individual cultivators; but in practice much of the land so held is let to tenants, so that the difference is often not so great in practice as it appears. The Floud Commission, which, shortly before the war, reported on the land systems of Bengal, recommended the abolition of zemindari and other indirect tenures and the establishment of direct relations everywhere between the cultivators and the State—in effect, nationalisation of the land.

The Land Question in India

The Indian peasant has in most cases to find not only his rent and quota of land revenue, but also interest, usually at a high rate, to a moneylender. These peasant debts have been piling up over a long period, and are a formidable burden, especially in periods of low agricultural prices. Moreover, the peasant cultivator, being in debt and having no reserves, has usually to market his produce under very unfavourable conditions. He has to sell in the local market, at the time of year—just after harvest—when prices are usually lowest, even where he has not previously mortgaged his crop. Often he is in effect forced to sell to his creditor, at a price which the creditor is in a position to dictate. If his crop fails, he falls further into debt. In addition, many quite small holdings are burdened with charges payable to absentee members of the family. Finally, there are too many workers on the land, and, with population increasing at the rate of about five millions a year, the pressure of rural population was getting steadily more intense right up to the war; for the growth of urban industries was not nearly rapid enough to absorb the rural surplus.

The average income per head in India was estimated shortly before the outbreak of war at well under £5 per annum, as compared with over £100 in the United States, about £74 in Great Britain, and over £16 in Japan. These are general averages, covering rich and poor, town-dwellers and country-dwellers, alike. The peasant average in India is obviously much lower: the Industrialists' Report puts it at £3 16*s.* 6*d.* for all classes in the rural areas, as against £12 9*s.* in the towns. The agricultural labourers, who have no land of their own, in many cases work (or at any rate did so up to 1939) for wages of 2*d.* or 3*d.* a day, and, even so, have often been without work for several months in the year. No wonder the expectation of life at birth in British India was under 27 in 1931, or that the rate of infant mortality was

nearly 170 per thousand, or three times as high as in Great Britain. Yet, as we have seen, population has been rising fast, for the birth-rate is about 34 per thousand inhabitants, or more than twice the British rate.

In India to-day, about 70 per cent. of the total working population is engaged in work on the land. This is a lower percentage than is found in some European countries; for India had, even before the war, at least 15 per cent. of the working population engaged in industry, and at least 13 per cent. in service occupations.[1] India was by no means without large-scale industries, of which there has been a further development during the war; but, as in other undeveloped countries, industries have been created with a view at least as much to exports as to the home market, and the extreme poverty of the mass of the Indian population sets limits, despite the size of the country, to the creation of industries designed to serve the main body of home consumers. It is evident that the key to the Indian economic problem lies even more in improving agricultural standards and productive power than in the creation of large-scale industries apart from such improvements. Only a rise in standards of peasant consumption can provide a secure basis for intensive industrial development.

Comparison with the Soviet Union

At this point it is natural to think of the Soviet Union, where the attentions of the planners were directed in the earlier stages of economic planning much more to the creation of large-scale basic industries than to the improvement of agricultural productivity or to the expansion of supplies of manufactured goods for general consumption. It is natural that the minds of Indian planners should turn to the achievements of the Soviet Union, and that it should be asked whether India's way out of poverty may not be to follow the Soviet road. Indeed, the requirements of war have to some extent led to an emphasis since 1939 on the development of the heavy industries in India; and this fact might make it easier to continue along the same lines. There are, however, very great differences between the problems which had to be faced in the Soviet Union and those which confront India to-day. The greatest of these differences is the much greater pressure of population upon the land. The Soviet Union had an abundance of undeveloped land which could be brought under the plough, and the State farms were mainly created upon this land. Despite this fact, the urban populations of the Soviet Union experienced over

[1] Compare the figures given for various European countries on pp. 680-1.

a long period an acute shortage of food, which was overcome only after the collectivisation of agriculture had come through its early difficulties. The pressure of population on the land in India makes industrial development even more desirable than it was in the Soviet Union; but it also makes much harder the task of diverting any substantial part of the country's resources to the function of capital accumulation. The Soviet Union, acting under the strong double impulse of saving the Revolution at home and protecting it from hostile forces abroad, did undertake the very great immediate sacrifices involved in diverting a large fraction of the scanty national income to building up a huge modern industrial equipment, and it may be said that India, given powerful enough reasons, could do the same. But the task would be even harder for a country less able to develop agricultural production on unused land and living at an even lower standard of life than the peoples of Czarist Russia.

Of course, this comparison assumes—what may not be the case—that India, like the Soviet Union, would have to plan on the basis of developing its own internal resources, practically without assistance from abroad. The Russians were living after their Revolution practically under a world boycott, and were quite unable to raise foreign loans, even if they had wished so to do. The one great asset for obtaining imports from abroad that the Soviet Union had, apart from exports of ordinary commodities, such as timber, was the possession of large gold resources, which could be mined at a high profit because of the sharp rise in the value of gold in terms of other goods. India also has large gold resources, mainly of a different sort—in the hoards of the Indian rulers and rich men, which are believed still to amount to as much as £750 millions, even after considerable amounts of gold have been sent out of India in recent years. The Industrialists' Plan estimates that about £225 millions could be obtained from this source to finance capital imports needed for economic development; and it is easy to imagine conditions that would make available a still larger sum. But India to-day possesses a second valuable asset which can be used for purchases abroad. Since 1939 India has been one of the great sources of supply for the war effort of the United Nations, and has been unable to import goods nearly equal in value to what have been sent out. This has resulted not only in the repayment of most of the capital debt owing to British investors, but also in the piling up in London of very large sterling balances representing debts due from Great Britain. The exact amount is not known, but has been estimated at about £1,700 millions. This sum, if it could be drawn upon

freely, would evidently go a considerable way towards paying for the imported capital goods needed for the application of an economic development policy.

The Problem of India's Sterling Balances

But can these balances be drawn upon freely? They represent a claim by India to receive from Great Britain the means of purchasing, say, £1,700 millions' worth of goods in the world market. If India could make free use of this power, some of these goods would be ordered from Great Britain and some from other countries—especially from the United States. It is, however, all too plain that Great Britain will not be in a position to supply dollars in exchange for the sterling held on Indian account. There will be enough difficulty in finding the dollars needed for essential British purchases in the United States to make it quite impracticable for the British monetary authorities to pay out large sums in dollars on Indian account—at all events, unless the payments are spread over many years. The alternative is for the Indians to use their sterling credits to buy British goods. But even this is none too simple. British exports contain, on the average, about 25 to 30 per cent. of their value in the form of imported materials: so that, in order to meet the Indian claim, even in this form, Great Britain would have to find the equivalent of some hundreds of millions of pounds in foreign currencies, without receiving in return any imports for home consumption. There will, however, be considerable difficulty in balancing Great Britain's international accounts for some time after the war, even to the extent of paying for imports essential for home consumption. Thus, even if the Indians agreed to take out the whole of their London credits in purchases of British goods, the supply of these goods would have to be spread over a long period. The existence of these huge sterling balances is indeed India's greatest asset in political negotiation with Great Britain; for there is no way in which they can be speedily liquidated, and any attempt to draw upon them freely would either cause a severe crisis in the British economy, or have to be met by a flat refusal to pay—that is, by a formal 'blocking' for an indefinite period which would have the effect of deferring payment to an uncertain time in the future. Great Britain would be very unwilling to resort to so extreme a measure in face of the manifest justice of the Indian demand to be paid back as much as the British economy can afford to pay, and accordingly India holds strong cards in negotiating for a reasonable arrangement. Whatever is arranged, it is clearly out of the question for the Indians to draw on more than a fraction of their sterling balances

for financing the early stages of any plan of national economic development that may be taken in hand.[1]

Nevertheless, India's sterling credits are a valuable asset to be drawn upon gradually during the process of industrial development, in such a way as to make it easier to import foreign machinery over a period without having to send out in exchange an equivalent quantity of exports, which would necessarily have to be provided to the detriment of the home standard of living. Moreover, the existence of these credits may make it possible for India to borrow capital, say, from America, that would not be forthcoming in the absence of such assets. Another favourable factor is the actual industrial development which has taken place in India during the war. This capital investment, having been directed to meeting war needs, diverges largely from what would have been regarded as most desirable if the purpose had been that of improving domestic standards of living; but most of it can be converted to peace time uses, and it will thus leave more scope for future investment in consumers' industries and in the improvement of communications and of conditions of agricultural production.

Essential Conditions of Planning for Indian Development

Any plan of economic development for India will have the purpose of increasing the total national income by increasing the total production of real goods and services. Two questions immediately arise. How fast can the total national income be increased? And what forms can the increase best take, or in other words, what proportions of the available resources are to be directed to expanding the different forms of production? The answer to the first question obviously depends in part on the extent to which foreign help is forthcoming on acceptable terms. The answer to this question will also affect the answer to be given to the second question. The slower the total rate of development, the less will it be possible to spare from immediate consumption and to direct towards investment which will increase the supply of consumers' goods and services later on, at the expense of restricting what can be made immediately available.

The Industrialists' Plan

The total national income of British India, excluding the native States, was estimated for 1931–2 at about £1,325 millions. The

[1] Negotiations on the 'sterling balances' question between Great Britain and India were begun early in 1947, but without result. It was part of the terms on which the American Loan was granted to Great Britain that the British should attempt within a year to negotiate such a settlement.

inclusion of the native States would raise the total to about £1,650 millions, or, as we have seen, well under £5 per head of population. The Industrialists' Plan is based on an attempt to raise this total to £4,950 millions over a period of fifteen years—a threefold rise. Even such an increase, however, would only double the national income per head. The population of India is rising at the rate of about five million persons a year; and there is no good reason for expecting this rate of increase to fall off. The immediate effect of any rise in standards of living would probably be to raise it, by reducing infant mortality and also by reducing death rates generally. There may be a serious problem here; for if population were to increase very fast as an outcome of higher production, the entire increase in production might be eaten up in maintaining the larger population, leaving no surplus available for investment in order to advance productivity yet further. Probably, in the long run, higher standards of living would be followed by lower birth rates and there would be less room for death rates to fall further after the initial drops. But the difficulty is that of getting over the first hurdles—by increasing production faster than population to a sufficient extent to render possible a considerable programme of real investment in capital goods. This is an exceedingly ticklish problem, on which calculations of the practicable rate of real investment might easily come to wreck.

If we assume that the annual increase of population remains steady at five millions—which of course implies a falling *rate* of increase—total population will by 1960 reach about 489 millions, and a threefold increase in total income would yield a rise per head from £4 17*s.* 6*d.* in 1931–2 to about £10 2*s.* 6*d.* This allows some margin if, as in the Industrialists' Plan, the objective is set at doubling income per head. However, the figure given for 1931–2 may well be too low to represent current realities; for it was calculated at a period of very low agricultural prices. The real income per head may therefore not be doubled, even if production is increased in the scheduled proportions. Let us, however, for the present ignore these complications, and follow further the estimates given in the Industrialists' Plan. For the moment the reader may confine his attention to the first column of figures in the Table on p. 820.

This Plan, as we saw, involves a threefold increase in the total national income over a period of fifteen years. As against this, the national income of the Soviet Union, according to official estimates, had before the outbreak of war been increased fivefold in a period of only twelve years from the beginning of the first Five-year Plan. The Industrialists, in view of this comparison, apologise

PLANS OF INDIAN ECONOMIC AND SOCIAL DEVELOPMENT. ESTIMATES OF COST

(*£ millions*)

	The fifteen-year plan of the Indian Industrialists	*The ten-year plan of the Indian Federation of Labour*
Agriculture .	934	2,212
Industry . .	3,360	4,200
Communications	709	1,125
Health services	350	570
Education .	378	780
Housing . .	1,888	2,363
Miscellaneous .	150	
	7,769	11,250
Average annual rate. .	511	1,125

for the modesty of their objective, justifying it on the double ground that India's "natural resources are not so extensive and varied as those of the U.S.S.R.," and that they "are anxious to avoid the heavy cost in terms of human suffering which the U.S.S.R. had to pay to achieve this spectacular result." Yet, as we shall see, even this "modest" objective implies the setting aside for investment of a far higher proportion of current production than it is easy to suppose could in fact be spared from consumption.

Over the fifteen years covered by the Plan, the Indian Industrialists envisage a total investment amounting to £7,500 millions. This sum is to be spread unevenly, at a rising rate, over three stages, each covering five years. For the first five years the Plan envisages an expenditure of £1,050 millions, rising to £2,175 millions for the second five years, and to £4,275 millions for the third. Thus, the Plan is meant, after the earlier stages, to be largely 'self-financing,' in the sense that the revenue for it will come from appropriating for it a high proportion of the new productive power which it will have brought into existence. It is not explained from what specific sources the required capital is to be drawn for each separate period; but there is a general estimate showing where the draftsmen of the Plan think that the revenue for it can be obtained. Of the total of £7,500 millions, they reckon on drawing £1,350 millions from foreign sources, in the form of goods for which no Indian goods will need to be exported in return. This part of the total is made up of the following items: sterling balances, £750 millions; foreign borrowing, £525 millions; and export of hoarded gold, £225 millions. Thus foreign borrowing of capital accounts for quite a small proportion of the

planned total—only 7 per cent.; but even so, it adds up to a formidable figure, with the United States as the only likely source in the near future for the major part. Moreover, it assumes the practicability of drawing heavily on India's sterling balances, despite the very precarious position of the British balance of international payments.

In addition, the Industrialists reckon on an export balance of £450 millions from the proceeds of foreign trade—the surplus of Indian exports over Indian imports other than those needed for the execution of the Plan. This estimate of £30 millions as the annual surplus on foreign trade is largely based on the assumption that the sums released by the repayment during the war of India's external debts will become available for financing imports needed for the Plan. This clearly involves a rigid control over the consumption of imported goods in India; for otherwise the increase in the national income would be bound to carry with it a large increase in the demand of private consumers for imported supplies.

The sources so far enumerated account for little more than a quarter of the required total. The rest is to be provided from internal sources, over and above the proceeds of export trade. Of this residue of £5,550 millions, £3,000 millions are put down to domestic savings out of income, and £2,550 millions to what is called 'created money.' In other words, it is proposed that the Government should either raise by taxation or borrowing from the public or ensure that private capitalists raise from the same source the sum of £3,000 millions, spread unevenly over the fifteen years, and that the remainder of the money needed should be created by the banking system to offset the additional productive power which is to be generated under the Plan.

'Created Money' and Savings

It is, of course, entirely possible to create money through the banks, or for the State to create it directly in this way. We in Great Britain have been doing just that ever since 1939—the Government borrowing from the banks by issuing Treasury Bills or Treasury Deposit Receipts against bank loans which have been created by the banks and used by the Government for meeting current war expenses. There is no reason why India should not finance economic expansion by the same method; but it should be realised that sums created in this way, and used to finance capital investment, are just as much 'savings' as sums which private persons save out of their incomes or pay to the State in taxes, and

involve just as much a withdrawal of goods from the market. The two items are not really separate items: they are merely different ways of transferring purchasing power into the hands of the State. If the State taxes incomes or puts indirect taxes on commodities or business transactions, or if it borrows from private owners of income, in either case it directly takes away money which would otherwise have been available for private recipients of incomes to spend as they might please. If the State gets the money it needs by allowing the banks to create it, the result is equally to transfer purchasing power over goods and services from private persons to the State, but to do this, not by reducing money incomes, but by increasing prices; for otherwise, if prices are not allowed to rise by enough to balance demand, owners of incomes will be left with unspendable money in excess of what is needed for buying all the available goods and services. This form of financing has worked in wartime, because the State has been in a position both to control the prices of the necessaries of life and to ration total supplies of goods to consumers.

The authors of the Industrialists' Plan recognise this. They hold that, when the Plan has had time to produce its effect, prices will be lower than at the beginning despite the increased issues of money. They believe this, because of the much higher efficiency of production which they expect to develop as a result of the Plan. They admit, however, that "during the greater part of the planning period, financing of economic development by means of 'created money' . . . is likely to lead to a gap between the volume of purchasing power in the hands of the people and the volume of goods available." Their proposal for dealing with this problem is the imposition of a rigorous control by the Government over "practically every aspect of economic life." In other words, they envisage the period of active industrialisation, at any rate during its earlier phases, as requiring a form of economic control closely similar to that which is imposed in time of war; and they maintain that, given this strong control, money can be 'created' on the required scale without dangerous inflationary results.

This is probably true. Indeed, the example of planning in the Soviet Union and that of wartime planning in Great Britain alike show that it is true. It demands, however, a very strong and well-organised Government, in full command of all the key economic positions. It could hardly be reconciled, during the initial stages, with the political division of India into two or more separate States, and certainly not with the retention of economic powers by the States, or provinces, within a single Indian Federation; indeed, it could hardly be accomplished under any system that

allowed considerable devolution of vital economic authority from the centre to the provinces.

We have seen that the Industrialists' Plan is based on a schedule of expenditure which, beginning at a relatively low figure for the first period of five years, rises sharply for the second, and again for the third, five-year period. It is £1,050 millions for the first five years, at the average rate of rather more than £200 millions a year. Then it rises to an annual average rate of nearly £450 millions for the second, and of more than £850 millions for the third, period of five years. Even £200 millions is about one-seventh of India's pre-war national income, and £850 millions would be between a fifth and a sixth of the national income as the authors of the plan expect it to be at the end of the fifteen years. They say that in view of the very low standards of living in India they do not expect that on the average more than six per cent. of the national income "would become available for investment during the period of the plan." It is on this basis that they estimate a total sum of £3,000 millions over the fifteen years as becoming available from 'savings.' But, as we saw, 'created money,' to which they look for the £2,550 millions not provided for from other sources, is in reality 'savings' just as much as what is voluntarily saved out of personal income. It cannot be saved compulsorily by the State without producing an effect on the volume of voluntary savings. The poverty of the Indian people, moreover, stands fully as much in the way of a high rate of saving enforced by means of 'created money' as it does of high savings out of incomes in the hands of the public. Thus, the "modest" Plan of the Indian Industrialists turns out on examination to be not so modest after all, but to involve a very poor country both in setting aside for investment at the outset a remarkably high proportion of its scanty national income, and thereafter in refraining from increasing its consumption as production is raised to higher levels, in order to devote to investment a still larger proportion of its total income.

The Federation of Labour Plan

When we turn to the Plan prepared for the Indian Federation of Labour, we find a still more ambitious project. Instead of the £7,500 millions or more which the Industrialists propose to spend on development over a period of fifteen years, the experts of the I.F.L. put forward a proposal to spend £11,250 millions in ten years—at an annual rate which is more than double the rate involved in the Industrialists' Plan. The I.F.L. scales up the figures under every head, but most of all on the agricultural side;

for in this respect it regards the rival Plan as falling most behind what is required. The business men who prepared the Industrialists' Plan naturally tended to put the principal emphasis on industry, though even they recognised that India would remain, despite the Plan, a mainly agricultural country. The I.F.L., having in mind the great peasant masses, is set above all on raising standards of agricultural productivity, though it recognises that this cannot be achieved without the aid of large expenditure on industry and on the social and educational services. Accordingly, the I.F.L. has not scaled down the Industrialists' estimates for industry and transport, or for the social services. On the contrary, it has increased them. But it has added most of all to the estimates for agricultural reorganisation.

The £11,250 millions which the I.F.L. proposes should be spent over a ten-year period look staggering in relation to the existing level of national income in India. This total must be based on budgeting for a rate of development of the same order as the Soviet Union has achieved during the past two decades. Such a rate, if it is practicable at all, involves complete public control of all the resources of the country—public ownership of all important industries and services, full public control over the distribution of income and the supply and rationing of commodities, including both capital and consumers' goods, and a very strong central Government, armed with the fullest powers and working on the basis of a complete and detailed economic plan.

The I.F.L. holds, like the Industrialists, by the idea that the development Plan can be 'self-financing,' in the sense that the resources needed for it can in the main be obtained from the increased production it will bring about. It is proposed to achieve this, on the agricultural side, by land nationalisation on terms which would drastically reduce the tribute payable to landlords and by sharing between the State and the peasants the sums thus set free. On the industrial side, it is proposed to restrict profits to a maximum of 3 per cent. on invested capital, and thus to divert to the State a substantial sum for public investment, while allowing the consumers a share in the benefit in the form of reduced prices. In effect, most of the revenue at present accruing to landlords and capitalists would be confiscated under the Plan, and the present owners would be left with only a fraction of their present incomes, under conditions which would prevent any possibility of increase. It is not at all clear whether the I.F.L. experts mean to do away altogether with the profit incentive, or suppose that it can continue to operate in a modified form within the very rigid control that they propose to set up. But it is evident that they place little

reliance in it, and repose their faith mainly in new capital development under the auspices of the State.

The outstanding feature of the I.F.L. Plan is the exceedingly high proportion of the rising national income which it is proposed to set aside for investment. On the agricultural side, it is proposed to apply for this purpose 35 per cent. of the total income over the whole period of the Plan, and very much more than this proportion in some of the middle years. On the industrial side, nearly half the total income over the ten years is to be appropriated for investment. It is fantastic to imagine that in practice nearly as high a proportion as this could be spared from meeting the consumers' immediate needs, especially in face of rapidly rising population.

The Plans and Their Prospects

Yet, in a sense, it is easier to imagine the realisation of something like the I.F.L. Plan than of its rival. For the Industrialists, though they contemplate a large amount of public control and a considerable amount of actual public operation of industries, put forward their Plan on the assumption that it is to be carried out in a country still subject in the main to private ownership of capital and to private business enterprise. They do not face the question of the political conditions under which their Plan is to be set on foot or of the kind of Government that is to preside over its execution; but they leave it to be understood that the Government they envisage will at any rate not be Socialist or Communist. Yet how can a Government which is still under the necessity of cultivating the confidence of capitalist interests and of invoking the motive of private profit—or a Government which possesses only narrowly limited economic functions and powers—possibly carry through a Plan which requires the most rigid control over consumption and over the distribution of the national income, in order to ensure that investment is kept at a very high level and that at the same time the needs of the poorer consumers are adequately met?

I have stated strongly the difficulties which stand in the way of the execution of either of the Plans so far considered, because it is essential to understand that there is no magic way in which a country can provide itself with the capital needed for economic development, except to the extent to which it can borrow from richer countries, without diverting to the making of capital goods resources which could otherwise be used for raising the standard of life. It is, no doubt, perfectly true that in the long run this diversion will serve to make the standard of living higher than it could have been otherwise; but there are limits to the privations which people will endure voluntarily in the present in order to

raise standards for the future. It is, of course, true that, where there exists a surplus of unemployed labour or an excess of labour on the land that can be taken away without reducing agricultural production, the bringing of these resources of man-power into use can increase total productivity. But unemployed resources of labour can be brought into use only if there are machines and materials for them to work upon; and the provision of these machines and materials is in practice the crux of the problem.

Priorities in Planning for India

This being the case, it is obviously easiest for a poor and backward country such as India to develop those branches of production in which much labour can be employed with the aid of relatively few capital goods, and to undertake those capital works which use most labour and home-produced materials and make least demands on imported machines or materials. By this test, the I.F.L. seems to be right in laying the greatest stress on measures of agricultural improvement; for many of the most essential works connected with the advancement of agricultural productivity, e.g. land drainage, irrigation, and the making and improving of local communications, require much labour and do not involve large calls upon imported materials or equipment. Similarly, building of houses, schools, hospitals, and other essential structures can be done mainly out of home resources, and without any great call on types of skill which involve difficult training. This is not to say that most of these things can be done as well or as cheaply by the methods which can most easily be applied as they could be done if more and better implements and a higher proportion of skilled labour and well qualified technical ability were available. Indeed much of the work of development is bound, in the early stages, to be carried out by somewhat primitive and relatively inefficient methods. This, however, is nothing against undertaking it, if only the labour to be engaged upon it is *more* productively used than it could be if it were left to continue in the established ruts.

The prime needs for India, in the early stages of its transition from economic backwardness to a reasonable level of productivity, are to raise the efficiency of agriculture, which is bound to remain the greatest industry and the main source of supply for the food needs of the Indian peoples, and to improve communications, so as to make it easier to establish a truly national market and to prevent local famines by moving supplies from one area to another. The first of these needs includes the extension of the acreage under cultivation, by bringing more land under the plough, as well as the improvement of the quality of land already cultivated, and the

promotion of better methods of cultivation by means of agricultural education and training, better selection of seeds, more application of fertilisers, and, not least, improvement of the quality of livestock—a highly complex problem in Hindu communities. It is a disputed question how much of the area at present uncultivated can be brought into effective use; but there is no doubt at all that the scope for improving the quality of land already in use is enormous, or that success depends largely on extended irrigation. This, as the Industrialists point out, will involve the construction of expensive dams for impounding water, and could be carried out most economically in connection with big schemes of hydro-electrical development.

State Farms, Co-operation, and Collectivisation

The Industrialists also propose the establishment of a large number of model farms, so scattered about the country as to bring as many cultivators as possible into direct touch with improved farming techniques. These model farms would serve as centres not only for demonstration of better methods but also for the distribution of seeds and fertilisers, and for the supply of bullocks for breeding, agricultural implements, and technical advice. In this connection, great stress is put on the importance of extending Co-operative enterprise for a variety of purposes, including sale of produce, joint purchasing of requisites, and the supply of agricultural credits. In a few areas, notably the Punjab, agricultural Co-operation has already made notable progress; but the field open for its expansion is enormous.

The question which here arises is whether Co-operation in India can be left to grow merely as a voluntary movement, or should become the basis of a radically changed system, as it has been in the Soviet Union. There, agricultural Co-operation had already struck powerful roots before the Soviet Government began to apply its measures of wholesale collectivisation. But, in Soviet Russia as elsewhere, Co-operation of a voluntary type tended to pass by the poorest peasants, and to make more headway among those who were better off and relatively advanced in their methods than among the most backward and ignorant of modern techniques. In the Soviet Union, it was decided that the pace of voluntary Co-operation was much too slow to meet the imperative need for higher standards of production, and also that nothing short of a wholesale change would bring the country districts into line with the changed temper and tempo of the towns. Accordingly, the Soviet leaders decided to embark on the vast and hazardous experiment of 'collectivising' by far the greater

part of Soviet agriculture. What this meant in effect was that one Soviet village after another was turned into a rural Co-operative Society, cultivating in common the greater part of the village land. This had the very great advantage of sweeping away at a blow the traditional division of holdings into tiny strips and patches, and of making it possible to apply farm machinery, such as the tractor, and to mobilise effectively the limited numbers of skilled agricultural technicians in the service of the new collective farms. The Tractor Stations, which were set up to serve convenient groups of collective farms, played an indispensable part in making the new system work effectively.

In India, too, this method would clearly have enormous advantages, if it could be carried into effect. The inconvenient and uneconomic division of tiny holdings into a large number of separate strips and patches is very prevalent in many parts of India, and the great majority of the holdings are too small for improved methods to be practicable on them. It is, however, clear that only a very strong and determined Government could possibly have carried through the process of collectivisation of agriculture in the Soviet Union. Even with such a Government, the transition was difficult and perilous, and there was a time when failure seemed seriously to threaten. Livestock were killed off on a very large scale by the peasants who had owned them; and there was some tendency for the most advanced farmers to be weeded out as 'kulaks,' leaving the more backward to assume the charge of the great constructive tasks which the new structure required. The 'kulak,' or rich peasant, was, not unnaturally, often foremost in opposing measures which threatened him with the loss of his superior position; and his hostility often led him into active opposition to the Soviet régime, or at all events made him suspect. There was a period, during the transition to the collective system, when food supplies fell dangerously short; and it was only by prodigious efforts that the Soviet leaders were able to save the situation. In due course, the change led to higher production and, with some relaxation of the stringency of the original scheme, to a rebuilding of the depleted livestock population. Peasants on the collective farms were given more freedom to breed their own livestock and to undertake supplementary production on small holdings of their own; and in the end the experiment of wholesale collectivisation could be regarded as an outstanding economic as well as political success. The time of transition was, however, a great test of the Soviet Government's capacity and determination; and the sufferings temporarily endured by the Soviet peoples were severe.

Can, and should, India attempt to emulate this colossal achievement of the Soviet Union, in the hope that thereby the whole process of agricultural development could be immensely speeded up, in comparison with what could be hoped for from a spread of Co-operation on a voluntary basis? It has to be borne in mind that the denser population of India inevitably makes the change more difficult, and also that there is no easy opening in India for the development of such huge State farms for grain production on previously uncultivated land as helped at the most critical phase to prevent sheer famine in the Soviet Union. It would, I think, be impossible to copy in India the shock tactics by which mass-collectivisation of agriculture was achieved in a very short time over a large part of the land surface of the Soviet Union. India simply cannot face the possibility of temporary famine as a consequence of the dislocation attendant upon a sudden and sweeping change that would be bound to provoke strong resistance in many parts of the country. This does not mean that collectivisation is the wrong policy. On the contrary, it is almost certainly the right one; but the pace will have to be slower than it was in the Soviet Union, and the methods of enforcement will have to be much less ruthless if the plan is not to be wrecked. Even at this slower pace, and with these milder methods, it would need a very strong and united Government in India to embark on large-scale collectivisation. In practice, it would probably be necessary to make the attempt province by province, rather than simultaneously over the whole country, and to choose for the first attention those areas in which the local populations are least held apart by communal differences or have been most completely in the grip of landlords and money-lenders.

It is not without significance that no attempt has been made to force agricultural collectivisation on Poland or in the Danubian or Balkan countries which have come largely under the influence of the Soviet Union. Their population structure in effect makes such a policy impracticable, even apart from the opposition which it would provoke, at any rate until there are much greater possibilities of rapid industrial development, offering more new openings for employment, than exist to-day. In India, the case against any attempt to force the pace of collectivisation is even stronger, though there is every reason for encouraging its voluntary development wherever favourable conditions exist.

If this view is correct, it follows that the development of more productive agricultural methods is bound to be a great deal slower than is contemplated by the authors of the I.F.L. Plan. In many districts, the initial emphasis may have to be laid rather on irrigation,

the setting up of model farms and agricultural stations, the building of roads and bridges, the development of Co-operative agencies, and the improvement of rural education than on immediate changes in peasant methods of cultivation; and changes in the conditions of land tenure may have at first to be limited to reducing rents and taxes and relieving rural indebtedness, without drastic changes in the size or distribution of holdings. In the longer run, however, it seems sufficiently plain that the best hope for Indian agriculture does lie in extensive measures of collectivisation more or less on Russian lines, so as to substitute what will be in effect inclusive rural Co-operative Societies, embracing entire villages, for the forms of peasant cultivation at present in use.

Health Services

Both the Plans we have been considering lay considerable emphasis on the development of health and educational services and on housing; and here again the Indian Federation of Labour aims at a much more rapid rate of improvement than is contemplated in the Industrialists' Plan. The difference is less in respect of housing than of health services and education: it is greatest in education, where the I.F.L. proposes expenditure at three times the annual rate envisaged in the rival Plan. The present mortality rates in India, as compared with those in more advanced countries, plainly show the need for health reforms on the largest possible scale. The infant mortality rate is more than three times as high in India as in Great Britain, and is much higher than the rate in Japan. The general death-rate is nearly twice as high as in Great Britain; and the expectation of life at birth is less than 27 years, with little difference between the sexes, as against over 60 for males and over 64 for females in Great Britain.[1] No doubt, these conditions, and particularly the rate of infant mortality, would be greatly improved by any measures which led to a better standard of living among the Indian peoples —above all, to ampler and better balanced diets. But there is need in addition both for extensive public health undertakings and for greatly expanded and improved medical services. Even in the towns, the conditions of water-supply are still in many areas very bad. The industrialists state that out of 1,471 towns in British India, only 253 have any sort of protected water supply. These 253 towns, with an aggregate population of 13 millions, include most of the largest centres; but there are many big urbanised areas in which there is hardly any provision for securing the

[1] For comparative vital statistics in various countries see p. 994.

water supply against contamination. The position is aggravated by the unsatisfactory state of the sanitary services. The improvement of these is a matter fully as much of education as of capital expenditure; but considerable expenditure is necessary not only in the direct interest of improved sanitation, but also in order to prevent the pollution of the supplies of water. In many of the rural areas, and in some of the towns, the water question is also one of securing adequate quantities, as well as of raising the quality; and at this point the problem of water supply is closely connected with those of irrigation for agriculture and the development of hydro-electric power.

Medical services raise even greater difficulties, because the solution depends on increasing at a great pace the supply of trained doctors and auxiliary workers. India has at present about 42,000 doctors—one for each 9,000 persons—and only about 4,500 nurses—one for each 83,000. Great Britain has one doctor for each 750 persons, or thereabouts, and one nurse for each 450. There is a similar disparity in the provision of hospitals, an acute shortage of consultants, and a famine of medical services in many of the rural areas. One of the most urgent needs is the establishment of a general system of adequately staffed village dispensaries, together with an increased provision of hospitals in the towns, under arrangements which will make the hospitals effective centres for advice and for the supply of consultant services to the villagers as well as to the town-dwellers. There is also a very immediate need for maternity services. At present deaths of women in childbirth are at the rate of about 200,000 a year. There is a shortage both of trained midwives in the villages and of midwives and maternity hospitals in the towns. Child welfare clinics as yet hardly exist; and there is a notable lack of specialised medical institutions for the treatment of particular diseases, such as tuberculosis, as well as of centres for dealing with mental disorders.

In default of adequate government action, something might be done, as something has been done in Yugoslavia and in other parts of Eastern Europe, by Co-operative provision of medical services. In certain areas in Yugoslavia, for example, each village household contributes towards the income of a resident doctor, who is concerned not only with individual patients, but also with organising the whole village for a public health campaign against insect pests, for pure water and pure milk, and for better sanitary habits in disposing of refuse and in combating epidemic disease. Idealistic young doctors devote themselves to this type of service which of course, demands good medical schools to provide the right kind of training.

The two Plans differ in respect of health services not at all about what needs to be done, but only about the rate at which it is practicable to tackle the problems. This, as we have seen, is a question, apart from the money costs involved, mainly of training the large force of skilled workers who will be required. The pace of progress therefore depends very greatly on what can be achieved in the field of education—particularly higher education. Higher education, however, cannot be effectively developed on a large scale except on the basis of a much wider diffusion than at present exists of reasonably efficient primary and secondary schooling. Indian teachers are wretchedly paid, and the average level of efficiency is very low. In general, as in most backward countries, classes are very small by European standards; and the cost of making primary education universal, with adequate payment to the teachers, would be enormous unless the size of classes could be increased. The Indian teachers, given better preparation, should be able to handle larger groups; but only if they are given the best equipment for making full use of visual methods and are trained with the purpose of helping them to apply new techniques. There is room here for an immense amount of research into the best methods and for a wide diversity of experiments. A recent report on mass-education in Africa[1] has opened up this range of questions in its application to a group of much more backward peoples. I am not suggesting that what would suit the Africans would also, without change, suit India; but the two problems are alike in that they both require the finding of ways of making limited money go as far as possible, and, still more, of getting as much as can be got out of a very limited supply of potential teachers.

Side by side with the problem of primary education, India has to face that of adult illiteracy. There are at least 200 million illiterates between the ages of 11 and 50 whom it is desirable to make literate at the quickest practicable rate. Here too, mass-methods based on modern visual and auditory techniques will clearly have to be invoked. It has been amply shown in both the Soviet Union and Turkey that it is possible to make very rapid progress in stamping out illiteracy if the job is seriously taken in hand. But the demand for teachers in this field is of course to some extent competitive with that of the primary schools.

[1] *Mass Education in African Society*. Colonial Office, 1944.

PLANS OF INDIAN EDUCATIONAL AND SOCIAL DEVELOPMENT. ESTIMATES OF COST[1]

		Indian Federation of Labour		*Industrialists*	
	Thousands of schools	*Capital cost £ millions*	*Recurring cost £ millions*	*Capital cost £ millions*	*Recurring cost £ millions*
Primary schools, rural	260	68·75	120·0	49·5	49·5
Primary schools, urban	40	15·75	27·75	15·0	12·0
Middle schools, rural	60	31·5	69·75	25·5	36·75
Middle schools, urban	10	7·875	16·5	8·25	7·5
High schools, rural	15	45·0	40·09	24·75	48·0
High schools, urban	4	18·0	15·0		
School maintenance	—	—	—	—	4·5
	389				
Technical education	—	30·0	—	—	—
University education	—	—	—	—	15·0
Training of technicians		112·5			
Rural cultural centres		93·75	56·25	74·25	—
Urban cultural centres		7·18	4·12		

As for higher education, both Plans, following the lead given by Mr. John Sargent in his official report to the Government of India, lay great stress on the development of middle and higher schools, and also of technical and university education. According to the Industrialists' Plan, it is necessary to provide for all children three years of 'middle-school' education, beginning at about 11, and to expand the accommodation of high schools to cover about 20 per cent. of all children beyond the 'middle-school' stage. This involves the formidable task of providing middle schools with about half the total accommodation needed at the primary stage, and beyond this of providing about 10 million high-school places. The I.F.L. Plan actually involves the starting of about 400,000 new schools, in addition to nearly as many rural and urban Cultural Centres, to serve as points of focus for adult education in the widest sense, including the development of a wide range of social and cultural services. In addition, the I.F.L. Plan makes a special large appropriation for the training of technicians, and a more modest one for the development of university education and research.

No doubt, all this needs doing; and no doubt, given a really determined Government with the people behind it, an astonishing amount could be done in quite a short space of time. But evidently results on the minimum scale required to make either Plan a reality could be secured, quite apart from considerations of cost—which are formidable—only with the aid of an immense outpouring of popular enthusiasm. Education would have to seem

[1] Costs have been converted from crores of rupees into pounds sterling at the rate of 1*s*. 6*d*. for the rupee.

tremendously worth while for the teachers to be got and trained and for the requisite response to be forthcoming from parents and village communities. The building problem, which is itself immense, could be much eased if whole villages would turn out to help with the work of construction. This applies also to the immense rehousing projects embodied in both Plans. These are quite insoluble on the assumption that the work is to be undertaken wholly by professional building contractors and workers. It becomes a different proposition if the Government's role can be limited outside the big towns to that of supplying some of the materials and components, mass-produced in specially designed factories, and to organising the supply of *skilled* labour, leaving the local communities themselves to provide most of the unskilled labour needed on the sites, as well as such materials as can be locally procured and prepared.

I have no space to pursue into further detail this outline study of the two Plans for the economic development of India. For want of basic statistics, both Plans are necessarily sketchy; and I feel sure they are both far ahead in cost of anything that is likely to be achieved in the time. But what matters in them is not the actual expenditure which they envisage, in either money or manpower, so much as their scale. It is clear that the execution of either would call for a prodigious national effort, which would certainly not be forthcoming from a country either subject to alien rule or, even if self-governing, divided into rival factions or so decentralised as to lack a strong central Government fully armed with the essential powers of control over economic policy.

The Conditions of Successful Planning

Of course, India can progress, and can even progress considerably, while achieving much less than is contemplated in either Plan. If, however, economic progress is on a significantly smaller scale than the minimum envisaged in the Industrialists' Plan, the results will certainly differ not merely in a quantitative but also in a qualitative sense. The root fact about India is the vast number of little village communities of which it is mainly made up. No plan can touch the essentials of village life unless it is on the grand scale. Any plan which falls short will have, in effect, either to leave out the villages, or most of them, to confine its scope largely to the towns and the major means of communication, and to rely on the 'filtering down' of mainly urban improvements to the countryside, or to concentrate its attack on rural poverty on certain limited areas, leaving the main part of the population untouched. A plan so reduced would be likely, in practice, to be

self-defeating; for the possibility of satisfactory industrial development in India depends on enlargement of the rural home markets for industrial goods, and if this does not occur industries will be diverted to production for export and will have to struggle for shares in the world market or produce luxury goods for the rich and the relatively well-off instead of attending to the vast unsatisfied needs that exist at home. In a sense, the Plans we have been examining look fantastic. They are fantastic, if they are meant to be pursued under the limitations of a capitalist investment market and of the traditional profit-incentive to increased production. They become, in the light of Russian experience, very much less fantastic if we envisage them as being carried out under the auspices of a unified Indian State radically transformed into an instrument of Socialist construction.

Even the Indian Industrialists recognise the need for a large measure of State activity in the economic field. They envisage a controlled economy, working under public direction, and extending over the whole range of essential industries and services. Within this controlled economy, they contemplate the existence of a large socialised sector, including industries which can be financed only with aid from public funds and industries threatened with monopoly control, as well as the main public utility services. Such a proposal involves in India a much less drastic breach with the past than it would involve in the great capitalist countries; for the State already plays a large part in the conduct of essential industries. There is, however, a large difference between an economy including a considerable public sector but still mainly organised on a capitalist basis and an economy in which, even if many industries and services remain under private ownership, the recognised driving force is public, and the central direction of economic policy is based on socialist principles and conceptions. It is difficult to imagine that the Indian Industrialists' Plan could be applied in practice except under a central Government which accepted the main ideas of Socialism and held firmly in its hands the control of investment and of interest rates, as well as the power to control the working of all essential industries.

Proposals of the Government of India

In 1944 the Government of India produced the first of a series of proposals of its own for expenditure on post-war reconstruction and economic development; and thereafter the Central Government's proposals were supplemented by a series of projects put forward by the various Indian Provinces. Some of the Indian

Native States also drew up reconstruction and development plans of their own; but what is discussed in this chapter relates exclusively to British India. The Indian Government's Plans are not comparable with those drawn up by the Industrialists and by the Indian Federation of Labour, because they cover only action by the Central Government, though they also attempt an estimate of the sums which it will be practicable to raise in the form of private investments, as distinct from government loans. In all, the Central Government contemplated, in its reports of 1944, a total expenditure of about £750 millions, spread over five years, this sum to be derived half from taxes and half from loans. Over the same period, it put the total of private investment at about £375 millions. Provincial Government schemes added up, again over a period of five years, to nearly another £600 millions; but this probably included some estimated grants from central funds. Thus, the total contemplated expenditure, over five years, seems to have been of the order of £300 millions a year, from both public and private sources. This is not, on the face of the matter, much different from what was proposed by the Industrialists; but the difference is in fact a good deal larger than it appears, because the Government plans include under the heading of development many things—especially such things as rural maintenance—which the Industrialists appear to leave outside the scope of their plans as falling within the range of normal public expenditure.

In any case, it should be made plain that the plans advanced in 1944 were only recommendations, and did not commit the Indian Government. When, in 1945, that Government did produce the first draft of its own proposals, its announcements—which have of course now been suspended by the coming of a quite different sort of Indian Government into power—dealt with principles rather than with their application; and it said nothing about agricultural development or about the future of the health and educational services, except technical education. These subjects were left to be dealt with separately: the pronouncements so far made are confined to the question of industrialisation and to the structure to be built upon the industrial development that has taken place in India during the war. Two things are particularly notable about the Government Plan. In the first place, the control of twenty important industries, including not only steel, engineering, shipbuilding, electricity supply and electrical engineering, motor vehicle and aircraft manufacture, and cement, but also the textile trades, was to be transferred from the separate provinces to the Central Government. In the second place, direct public enterprise and also 'mixed' forms of enterprise, in which the

Government was to collaborate with private owners of capital, was contemplated over a very wide field. In India railways and public utility undertakings are already in the main publicly owned; and it was announced that the ordnance factories started under public ownership during the war should be continued as public concerns. In addition to these, the Government's statement contemplated the possible public ownership and operation of the manufacture of aircraft, motor-cars, tractors, chemicals and dyes, iron and steel, prime movers, electrical machinery, machine-tools, electro-chemical products, non-ferrous metals, and other products "if sufficient private capital is not forthcoming and if it is regarded as essential in national interests to promote such industries."

The statement also contemplated the possible nationalisation of industries, such as salt manufacture, in which the tax element has preponderated,[1] and also the participation of the State, side by side with private enterprise, in shipbuilding and in the manufacture of railway locomotives. Even beyond these fields, it envisaged the holding of shares by the Government in private enterprise, or the granting of loans. It declared in favour of national economic planning for the appropriate regional distribution of industries, of a general system of licensing factory development, and of the public regulation of industrial wages and working conditions. Profits also were to be controlled; and one of the purposes of planning was to be the prevention of an undue concentration of industry, not only in particular localities, but also in the hands of Hindus, as against Mahometans.

On paper, the Government's proposals looked both far-reaching and remarkably 'socialistic.' It must, however, be borne in mind that the range contemplated for public ownership and operation of industry was only permissive, and that the Government committed itself to active intervention, over most of the field, only if private capital was not forthcoming in adequate amounts or in order to prevent the exclusive domination of an industry by a particular community group. It might have turned out in practice that most industries would remain under private ownership, subject only to the general planning and controlling powers reserved for the Central Government under the scheme. It has also to be borne in mind that the published Plan was only a first sketch, and that it was left open for it to be considerably modified in consultation with the Provinces and States, before it reached the stage of being submitted for final approval to the central legislature.

In addition to the features already mentioned, the official statement envisaged tariff protection for Indian industries, and also

[1] Till its abolition by the new Indian Government in 1947.

preference in Government purchases, which would be an important factor in the market, especially for the output of the heavy industries. In its general features, the official declaration of policy was evidently modelled to a large extent on the Industrialists' Plan, and, like it, contemplated for India a 'mixed economy,' in which public and capitalist enterprise were intended to work in close and harmonious partnership. Whether such a combination of motives and incentives could be practicable on the scale required was the great question that was raised by the terms of the official pronouncement, no less than by those of the Industrialists' Plan; and exactly the same issues arose in respect of the political factors —the need for a strong, centralised control by a Government carrying with it the enthusiastic co-operation at least of a large section of the people. In any event, the 'Government of India' now means something radically different from what it meant when this Plan was drawn up; and the formulation of a new Development Plan is now the task of a Government representing, not Great Britain as the ruling power, but the Indian peoples themselves.

Planning and Government

We are brought back, then, at the end to the question of politics. It is easy enough to plan on paper big projects of industrialisation and rural economic development, of educational and cultural advance, of progress in sanitation, nutrition and medical services. But the success of these projects unavoidably depends on the creation of political conditions which will enable an Indian Government to secure not merely the passive assent but the active co-operation of a large proportion of the local leaders of Indian opinion, of the classes in possession of higher education, and of the peasants as well as the urban populations. Such a Government, moreover, in order to plan successfully, would have to be in a position to exercise drastic powers of control over the entire territory of India, and to override regional and local claims to act in ways inconsistent with the requirements of the general economic plan. These issues cannot be divorced from discussion of the political factors in the Indian situation. But we have seen in this chapter enough of the underlying conditions to make it plain that an effective economic plan for India, on anything like the lines of the plans so far considered, could be launched and executed only by a central Government composed of Indian leaders, basing its policy on the principle of Indian self-government, and in possession of large powers of economic action and control over the entire country.

At this point there arises an issue which I have hitherto been leaving deliberately out of account. All the plans so far considered rest on the broad assumption that the right line for India is to follow in the main the methods and techniques which have resulted in the much higher productivity achieved in the countries of the West. This emphasis is naturally greatest in the plans put forward by the Indian Industrialists; but it exists in the others only to a less extent. There is, however, in India a large and influential school of thought, headed by Mahatma Gandhi himself, which challenges this entire assumption, and argues that the correct course for India is to build on the foundation of the primitive village community (the Panchayat) a localised system of small-scale craft industries producing for the local market and not attempting to emulate the achievements of Western mass-production. Gandhi's insistence on *Khaddar* (home-made cloth) and on domestic spinning and weaving is well-known. It is not so generally realised that this insistence is part of a general philosophy of life hostile to Western influences and determined to build, both socially and economically, on native traditions. The Committees of the Indian National Congress, which were set up to prepare plans of economic development for a free India, came right up against the conflict between the ideas of Gandhi and his followers on the one hand, and on the other those of Indian millionaires and Indian Westernising or Sovietising left-wingers, who, however much they might differ about almost everything else, agreed in wishing India to follow the path of Western technological development. Gandhi, however, has a large following for his ideas, especially among the peasant masses and their leaders; and up to a point he is clearly right. The village, with its superabundant supply of labour and its very low level of productivity, needs a more balanced economy, such as it can get only by developing industrial production in the village itself, and not far away in the mills of Bombay or Calcutta. Such village industries can grow, however, only if they are protected against the competition, not only of imported factory goods from outside India, but also of the products of Indian factories using Western methods—and they can prosper, even so, only if their growth is accompanied by a rise in agricultural productivity which will allow fewer labourers on the land to provide for the food needs of a larger village population. The success of the Gandhi type of industrial development depends on the application of a great deal of capital to the land and to local transport services, for the purpose of raising

agricultural productivity. It also demands a strong central Government, capable of affording the requisite protection to village industries against Indian as well as against foreign capitalist mill-owners. In general, its effect is to call for a smaller expenditure of capital on industrial investment, but for even more on agriculture and on such other services as education and health.

The Political Factors

I have taken India as an example of a territory ripe for rapid economic and social development and possessing the national resources of man-power and materials without which such development would be out of the question. There are many other areas—though none so large or populous—to which similar considerations apply. It may be possible for a benevolent mandatory Power or imperial Government to launch a dependent territory on the path of development without granting to it at the outset the full powers of self-government for which its leaders will inevitably press. But it will not, I think, be possible to get up the necessary 'steam' for any thoroughgoing programme of internal economic development in the interest of the masses of the people without invoking the spirit of national responsibility, and therewith resigning the claim to direct economic and social policies from outside. Economic and social development, on the grand scale here postulated, depend not only on strong government, but also and essentially on *self-government.* They do this, because they require positive co-operation among the governed, an intensive mobilisation of the active resources under the control of the people's own leaders. They require, in effect, an atmosphere of creativeness which it is hardly possible to stimulate under foreign rule—even if in fact the foreign rulers are trying to do their best for the welfare of the governed peoples. In countries already industrialised, it can in general be assumed that measures of economic progress will not encounter strong psychological resistances except among groups which feel their economic and social position to be seriously threatened by the changes that are proposed. For India and for most of the other areas here in question, no such assumption can be made; for the road to social and economic progress is obstructed by many religious and cultural taboos and traditional attitudes which no foreign reforming influence could be in a position to break down. These attitudes have, moreover, been reinforced by suspicion that any change favoured by the ruling power must be proposed in the interest rather of the governing people than of the governed. The first requirement towards effective planning for India's economic

future is the setting up in India of an Indian central authority, armed with adequate economic powers, which the Indians, or enough of them, will be ready to regard as their own. This is not to say that nothing can be done as long as the conditions here postulated cannot be fully realised. Many things can, and should, be done by any Government that holds power in India; but an imposed and mainly foreign Government, however well and disinterestedly it might act, would have been suspect to many of those whose collaboration would be needed for practical enforcement of a workable plan. Nor can any central Government achieve much if the essential economic powers are vested in a number of Provinces, however composed, without effective co-ordination over the country as a whole. This, and not any doubt about the potential capacity of the Indian peoples and their leaders, is the reason why one is bound to take a cautious view of the chances of paper plans which, however sensibly conceived in terms of objectives, depend for their achievement on the attitudes of the main body of the people and on the existence of adequate powers at the centre, even more than on the skill and disinterestedness of the Government and its advisers. India may be able to lift itself out of primary poverty to a leading place among the advanced nations. Indeed, I feel sure that in the long run it will succeed. But it will not be able to do this unless it can resolve its inner political antagonisms enough to achieve both a powerful central Government and a sense of united responsibility among the key sections of the Indian peoples.

We are brought back, then, to a consideration of the political factors, which, in this brief study of the Indian problem, I have left deliberately to the last. The British rule in India is coming definitely to an end, and in one way or another the Indians will have for the future to take charge of their own affairs. This has been recognised by the British Government—and not only by the Labour Government; for before Labour came to power it had been recognised in the terms of the 'Cripps offer,' with the full authority of the Churchill Coalition Government behind it. The question is not whether India is to become self-governing, but how; and as everyone knows, the main problem is that of the relations between the two main political forces among the Indians themselves—the predominantly, but not exclusively, Hindu National Congress and the exclusively Mahometan Moslem League. Of these two, the Congress represents the larger community, and stands for the principle of a united, independent India. As against this claim the Moslem League, which has succeeded in rallying behind it the support of the great majority of Moslems, stands for

a division of India into two separate States, or rather for the creation of a predominantly Moslem State—Pakistan. This proposal is very seriously complicated by the fact that the Moslems live, not concentrated in one compact area, but partly scattered in predominantly Hindu districts, and partly concentrated in two areas—one in North-Western and one in North-Eastern India—which are separated by a large tract inhabited mainly by Hindus. The North-Western area, including the four Provinces of the Punjab, Sind, British Baluchistan, and the North-West Frontier Province, has the greatest preponderance of Moslems over all other elements in the population—roughly 62 per cent. of the total. But, whereas this whole area contains about 23 million Moslems, there are 33 millions of them in Bengal alone, as against 27 millions belonging to the Hindu and other communities. In Bengal and Assam together—that is, in the disputed North-Eastern area—the Moslems number about 52 per cent. of the population, with the Hindus accounting for the great majority of the rest. In Assam the Moslems are only about a third of the population. Outside these two main areas—the North-West and the North-East—are about 20 million Moslems, scattered among a non-Moslem population of about 128 millions. All these figures relate to British India, excluding the Indian Native States.

Pakistan

There is no possibility of creating in Northern India a compact Moslem State including the majority of Indian Moslems. A compact State could, no doubt, be carved out in the North-West, with a large Moslem majority; but it would include less than one-third of the Indian Moslems, and would have within it a recalcitrant Sikh population in the Punjab, as well as other large minority groups. Such a State, moreover, would obviously fail to satisfy the Moslem League, as it would exclude the area—Bengal—in which much the largest Moslem population is to be found. On the other hand, it is obviously out of the question to constitute a Moslem State stretching right across Northern India, so as to include both the North-Western Provinces and Bengal, because this would involve putting into it the United Provinces and Bihar, which lie between and have a population of which more than 80 per cent. is Hindu. Nor is this the only complication; for Western Bengal, including Calcutta, has a Hindu majority, and there are considerable Hindu areas in the Punjab, with Sikhs intermixed with both Moslems and Hindus. Division of the Punjab has been suggested, but could not easily be made acceptable to the Moslems.

In general, the Hindus include many more rich men than the

Moslems, who are mainly peasants, sometimes working under Hindu landowners. But of course the vast majority of both groups are very poor, and in many areas Hindu and Moslem peasants live side by side under identical conditions. The Congress leaders have always maintained that there is no real desire among the Moslem masses for a partition of India; and there have always been Moslem adherents of Congress. Probably the Congress view was correct until a few years ago; but in recent years the Moslem League, under Mr. Jinnah's leadership, has undoubtedly succeeded in rallying behind it the main body of Moslem opinion.

The creation of an independent Moslem State, divided into two widely spread areas as it would have to be, would be most undesirable from an economic standpoint; but it would be preferable to a federal plan which would, while nominally uniting all India, leave all the essential economic powers in the hands of a number of autonomous Provinces. Either of these expedients would prevent effective national planning of India's development; but the second, by increasing the number of autonomous units, would have even more adverse economic consequences than the first. It is indispensable for any Government that is to set to work seriously to raise standards of productivity, and therewith standards of living, for the Indian peoples to be able to make plans for investment, saving, taxation, and the control of foreign trade, as well as for transport and communications, over the whole country, or at the very least over the greater part of it. This, of course, does not exclude supplementary planning at the provincial level; but it is surely plain enough that no major planning of the type discussed in this chapter can be workable except on the basis of unified control over a very large area—large enough to cover the majority of the whole population of India. For the same reasons, it is economically desirable to include the areas of the Indian Native States within the scope of the national plan.

The Cabinet Mission's Report

Because of the difficulties I have outlined, the British Cabinet Mission to India, in its Report published in May, 1946, rejected the proposal to create a separate State of Pakistan, and put forward instead the notion of an Indian Federation—to include the Native States as well as all British India—with very limited functions and powers for its central Government. The only matters to be dealt with centrally under the proposed plan were finance, defence and communications—all idea of central control over economic policy being excluded, save to the extent to which

it could be brought under one of these three heads. All other powers were to be vested in the separate Provinces (and in the Native States); but the Provinces were to be free to form groups for common action, and each group was to be free to decide what subjects should be dealt with in common over its entire area. The Mission then proceeded to divide British India into three groups of Provinces, one, much the most populous, including all the predominantly Hindu Provinces except Assam, a second the predominantly Moslem Provinces of the North West, and a third the two Provinces of Bengal and Assam, in the North East. There was some dispute at a later stage on the question whether this grouping was meant to be compulsory or not, one of the main questions at issue being the joining of Assam with Bengal. It was made clear in the Report that any Province could, if its people so wished, secede from any group, but only after the groups had performed the function assigned to them of drawing up group and provincial constitutions, and apparently without the option of joining any other group.

The publication of the Cabinet Mission's Report was followed by much going to and fro among the Indian parties. Both Congress and the Moslem League agreed to accept the Mission's long-term proposals, but the two groups were unable to agree to the British proposals for the formation of an immediate Coalition Government, based on the Indian parties, to take charge of the country's affairs while a Constituent Assembly was chosen and while the process of constitution-making for the new India was being carried through. This deadlock resulted in the formation, in July, 1946, of a 'caretaker' Government of officials to hold office while the Constituent Assembly was being chosen. In the same month the Moslem League, accusing Congress of a wholly non-co-operative attitude and the British Mission of playing into the hands of Congress, withdrew its support from the long-term plan, and announced its intention to institute a policy of 'direct action.' This was followed by an invitation to Jawaharlal Nehru, the Congress leader, to form an interim Government without the participation of the Moslem League; and a Congress Ministry accordingly took office in August, 1946, announcing that it would keep positions ready for the Moslem leaders in the event of their agreeing to take part. Direct negotiations between Mr. Nehru and Mr. Jinnah followed, but produced no agreement; but in October, under strong British pressure, the Moslem League agreed to appoint members to a Coalition Government. It refrained, however, from appointing its most responsible leaders, and refused, after further differences with the Congress Party, to take

part in the Constituent Assembly, which had by that time been elected by the Provincial Legislatures on the basis laid down in the Cabinet Mission's Report. This further deadlock was followed by the summoning of the leaders of both the main parties (and of the Sikhs, who had also rejected the Mission's plan) to London for consultations with the British Cabinet; but no agreement was reached, the main cause of deadlock being still the Moslem League's insistence on, and the Congress's rejection of, the compulsory grouping of the Provinces for constitution-making into the three groups defined in the Mission's Report.

The Constituent Assembly met in December, 1946, with the Moslem League's members absent, and in January, 1947, it agreed, under protest, to accept the proposals for compulsory grouping of Provinces on which the British Government had insisted in the London discussions. This was done in the hope of inducing the Moslem League to participate in the further proceedings of the Constituent Assembly. In the meantime there had been, from the time of the League's threat of direct, action,' serious communal riots, first in Calcutta and later in Eastern Bengal and the Punjab; and in these riots many thousands of people, mainly Hindus, were killed. The British military forces in effect governed the country, with the Coalition Ministry of the Indian parties holding only nominal power; and this continued to be possible because the Indian Army continued to be prepared to obey orders. It was, however, obvious that this situation could not continue for long; for it involved a state of tension that was bound, unless it could be relaxed, to lead to further and even more serious communal disturbances, and perhaps even to a civil war. It is too soon, as I write, to measure the effort of Lord Mountbatten's appointment as Viceroy in March, 1947.

The Future of British India

I am neither a prophet nor an expert upon Indian affairs; and any comment I make can be no more than that of a diligent observer of world politics. In the first place, I acutely dislike the idea of a completely separate Pakistan, because it seems to me to stand in the way of effective measures to raise the standards of living among the unfortunate Indian peoples, Hindu and Moslem alike. Secondly, however, I prefer Pakistan to a nominally united India which would be shorn of all power to deal with its economic and social problems on a basis of common planning. Thirdly, I do not believe that Congress and the Moslem League will ever agree or work together in any constructive way as long as they can blame the British for their disagreements. Naturally,

then, I most heartily welcomed the British Government's announcement, in March, 1947, of its definite intention to withdraw from India by June, 1948. Unfortunately, this announcement still left it entirely unclear how the withdrawal was to be effected, or to what authority power would be transferred in the disputed areas, in the event of a continued failure of the Congress and the Moslem League to agree. The British Government said only that it would, in that event, consider handing over the powers of the Central Government of India either to "some form of central Government for British India," or to the existing Provincial Governments in some areas, or otherwise as seemed to it best when the time came. This left it open to the Moslems to argue that, if they could consolidate their hold on the predominantly Moslem Provinces, they might be able to get the equivalent of Pakistan by inducing the British Government to hand these Provinces over to Moslem Provincial Governments rather than to a Central Indian Government under Congress control. This motive doubtless lay behind the serious disturbances which, in March, 1947, drove out of office the Unionist Ministry of Hindus and Sikhs in the Punjab and, after the Moslems had failed to sustain a Ministry of their own, involved the taking over of power in the Province by the British Governor—an ominous necessity in view of the prospective transfer of power throughout British India.

Fourthly, I think the British Government, up to March, 1947, had been taking altogether the wrong line in insisting that it could not hand its power over except on terms agreed on between Hindus and Moslems; for this line was in effect giving the Moslem minority an unlimited power of veto. It is to be hoped that, having at last declared its intention to leave India, the British Government will adhere to the date announced, whatever may occur.

Fifthly, I think the announcement of the intention to evacuate India should have been coupled with the further declaration that, failing agreement between the main parties, the British Government would place a Congress Ministry, as representing the majority element, in full power, *and would give it complete authority over the Indian Army.* I do not say that this action would ensure a settlement, but that it would offer the best chance of one, by making it plainly necessary for the Moslem League to come to terms with the Congress, instead of relying on the British, as their final imperial act, to divide the country at its behest. As against this, the continuance of the existing uncertainty involves the likelihood of a further drift towards a civil war

which will be as disastrous for Great Britain as for India, if its advent finds the British still in occupation.

The Indian Army

This handing over of the control of the Indian Army is a more important matter than a good many people in this country understand. At present—that is, in January, 1947—the number of *British* soldiers left in Asia is very small indeed, and the vast 'commitments' of Great Britain in Asia, of which we hear so much, are in effect being sustained by Indian soldiers. Even if these soldiers are still prepared to obey British orders, their retention as part of the British military force in any area is clearly quite inconsistent with Indian independence and ought to be given up at once. The British Government's military advisers (or rulers, which I am sometimes inclined to regard as a more correct description of them) may say that this will render their task of sustaining British power in Asia impossible. If that is so, then so much the worse for British power in Asia, of which I, as one Englishman who has no belief in the white man's right to exploit the coloured man, shall be heartily glad to see the last. I hope that India and Burma and Malaya and other parts of Asia which have hitherto been held in subjection under British rule may *voluntarily* agree as fully independent countries to retain an association with a British Commonwealth of Nations that shows itself prepared to treat them fully as equals; but I will do anything I can to incite to disobedience and to abet any British citizen who refuses to take part in any attempt from now on to treat any of these countries as subject, or to repress their endeavours to make themselves fully independent and self-governing.

The Indian Native States

Finally, in relation to India, I deny the right of the British Government to enforce upon any Indian Government any respect for the claims of the despotic rulers of the Indian Native States. If promises were made long ago to these despots, they were promises which no British Government had any right to make; and to-day, in face of advancing democracy, they are not worthy of any respect. One of the few encouraging developments in the Indian situation in the early part of 1947 was that the Indian Princes agreed to take part in the Constituent Assembly. True, Congress had to offer them large concessions in order to get them in; but their acceptance clearly indicated that they had realised at last the futility of relying on British help against the Indian National Movement.

CHAPTER VIII

THE FAR EAST

BEYOND INDIA, IN THE Far East, lies yet another vast area of primary poverty, flanked by the comparatively advanced industrial civilisation of Japan to the east and to the west by the rich areas of tin and rubber production in Malaya and the Dutch East Indies. China, with an even larger population than India and a civilisation at least as ancient, is still one of the world's principal areas of impoverishment, suffering heavily from the denudation of its forest tracts and from the intense pressure of population upon land continuously cultivated over many generations. China's population is densest in the south; and in the north, particularly in Manchuria and Mongolia, there remain large areas capable of supporting a greatly increased number of inhabitants if their resources could be effectively opened up. The extent of China's natural resources is still largely unknown and has been a matter of much dispute; but, at the least, they are considerable enough to supply the basis for a much higher standard of living than has hitherto been attained. Such economic development as has taken place up to the present has been mainly under foreign influence and control, and from the middle of the last century China has been a disputed sphere of influence among the great powers of the world, with the Russians pressing eastwards towards Manchuria and the neighbouring provinces, the British entrenched at Hong Kong and other points in the south, and predominant in the trade of Shanghai and the Yangtse Valley, the French further west in Indo-China, and the Americans, without a separate sphere of influence until they acquired the Philippines after the Spanish-American War, largely active as traders and missionaries over the whole country, except when and where they have been prevented from operating by the rival schemes of the Japanese. Japan, for its part, has pressed hard upon China from the east, seizing first Formosa and then territory upon the mainland, until, in the great Sino-Japanese War, which was in progress for some time before the second World War began, the Japanese armies succeeded in occupying a large part of the country, although there were always many areas even within their zones of occupation where their writ did not run and power remained with

PRODUCTION OF CERTAIN FOODSTUFFS IN THE FAR EAST, 1938–9 OR NEAREST AVAILABLE YEAR

Figures for Germany and the United Kingdom are added for comparison

(Millions of quintals)

	Japan	*Korea*	*Manchuria*	*Formosa*	*China*	*India*	*Germany*	*United Kingdom*
Wheat	12·3	2·8	9·6	—	174	109	56	20
Barley	14	11	?	—	64	21	42·5	9
Rye	—	—	—	—	—	—	86	0·1
Oats	2	0·4	?	—	8·5	—	64	20
Maize	1	1	25	—	78	19	2	—
Rice	122	45	8	18	450	365	—	—
Potatoes	18·5	8	—	—	—	—	509	52
Soya beans	3·5	5	49	—	59	—	—	—
Beet sugar	0·5	—	0·2	—	?	—	19	3
Cane sugar	1·5	—	—	—	—	25	—	—

PRODUCTION OF CERTAIN MATERIALS IN THE FAR EAST, 1939 OR NEAREST AVAILABLE YEAR

Figures for Germany and the United Kingdom are added for comparison

	Japan (including Formosa)	*Korea*	*Manchuria*	*China*	*India*	*Germany*	*United Kingdom*
Coal, million metric tons	55	2·3	15	22	25	186	237
Iron ore, m.m.t.	0·5	0·3	1	?	2	3	3·6
Manganese, thousand metric tons	34	—	—	?	430	209	—
Copper ore, t.m.t.	81	3·6	—	—	5·6	30	—
Lead ore, t.m.t.	12	10	—	3·4	—	86	30
Zinc ore, t.m.t.	22	—	—	4	—	220	12
Tin ore, t.m.t.	2·5	—	—	11	—	0·3	1·7
Bauxite, t.m.t.	—	—	—	?	9·1	93	—
Chrome ore, t.m.t.	15·4	—	—	—	25	—	—
Nickel ore, t.m.t.	—	—	—	—	—	0·6	—
Tungsten ore, t.m.t.	0·04	1·2	—	6·9[1]	?	—	0·15
Cadmium, t.m.t.	—	—	—	—	—	0·4	—
Antimony ore, t.m.t.	0·15	0·0	—	6·5[1]	—	—	—
Mercury, t.m.t.	0·02	—	—	0·0	—	—	—
Vanadium, t.m.t.	—	—	—	—	—	—	—
Molybdenum, t.m.t.	—	0·04	—	0·0	—	—	—
Silver, t.m.t.	321	83	—	6·2	?	210	3·4
Gold, thousand *kilos*	30	33·6	4·7	—	9·8	0·3	—
Petroleum and shale, million metric tons	0·4	—	0·1	—	0·3	0·6	0·1
Cotton, million quintals	—	0·4	—	4·8	9·2	—	—
Wool, thousand metric tons	—	—	—	55	45	20·5	50
Silk, t.m.t.	49	1·6	—	4·7[1]	0·1	—	—
Rayon, t.m.t.	109	—	—	—	—	70	54
Staple fibre, t.m.t.	140	—	—	—	—	200	27
Wood pulp, million metric tons	0·8	0·0	—	—	—	2·5	0·3
Cement, m.m.t.	5·1	—	—	0·5	1·1	15·6	7·9

Figures for ores give metal content.

[1] Exports only.

guerrillas or Communists or other Chinese groups owing some shadowy allegiance either to the Government of Chiang Kai-shek or to the rival Communist administration at Yenan.

South-east Asia

To the south-west of China lies the great region of Indonesia, with its long sweep of islands from Sumatra to Timor, and its close connections with the mainland territories of Burma, Malaya, Siam, and the French provinces of Indo-China. This area, or rather a part of it, has experienced very rapid economic expansion during the past two generations. It has become the great source of world supply of both tin and rubber, and it is also an important source of oil as well as of rice. The enormous development of the motor industry has given its resources of oil and rubber a rapidly expanding outlet all the world over, and in particular its preponderance in the supply of natural rubber has made these resources of the greatest possible importance to the United States. In Malaya especially the consequence of economic development has been an extraordinary mixture of population, so that to-day the natives of Malaya are largely outnumbered by immigrants from China and India, as well as from the neighbouring island area. The Chinese have been particularly successful in Malaya, not only in trade but also in establishing their own position in industry, and they now constitute a tremendous problem in relation to the future government of the country. The Indians have come in mainly as labourers and have mostly returned to India after a period of service on the plantations. The Chinese, on the other hand, have come largely to settle and remain, not only in Malaya but also to a smaller extent throughout Indonesia, and indeed throughout the area lying between China and the Indian Ocean. In the Dutch Indies Java is densely populated, and in certain areas highly developed economically, whereas Sumatra and Celebes still remain for the most part primitive and unexploited. In Burma there is a distinctive and settled civilisation in the southern part of the country, but a large part of the interior remains under very primitive tribal conditions. Siam, the only independent kingdom left in this part of the world, has shared to some extent in the fruits of recent economic development, and the same has been true hitherto of French Indo-China, where native rulers have been left in nominal authority, under the control of French Commissioners and administrators acting on behalf of the home Government.

The Problem of Japan

The great questions now facing the world in the Far East are, first, what is to become of Japan, both economically and politically, now that Japanese projects of domination over the whole area have been decisively defeated; secondly, what is to become of China, deeply impoverished by prolonged war and devastation and ill able to sustain effectively the status of one of the five Great Powers which has been nominally conceded to it as a member of the United Nations Organisation; and thirdly, what is to happen to the whole area lying between China and India in respect both of future relations with the European powers hitherto in control and of the mutual relations between the new nationalist movements and national Governments which are now emerging and challenging the continuance of imperialism and of colonial exploitation at a number of separate points?

In considering this vast area and the immensely complex problems which it presents, it seems simplest to begin with Japan; and Japan, on the morrow of its defeat, presents a problem resembling in many respects that which is set by Germany in the West. Here is a country, until a couple of generations ago unfamiliar with the mechanical achievements of the West, that, having once come into contact with them, showed a quite extraordinary faculty of imitation and adaptability and made itself rapidly master of the essential Western techniques. Populous, and indeed continually setting up the cry of over-population as a reason for territorial expansion, Japan had become the home of a state-worshipping militarism which had taken hold of the Japanese people in an even deeper sense than the Germans were taken hold of by the myths of Nazism; and it is even now more difficult to imagine Japan settling down to accept a limited destiny in a world of peace than to imagine a real conversion of the German people to ideas of peaceful international collaboration. Up to the moment when the first atom bomb was dropped on a Japanese city, Japan was proclaiming its intention, despite the collapse of Germany, of resisting to the bitter end, and it still seemed possible that the war in the Far East might last for a considerable time beyond the war in Europe, owing to the extreme difficulty of expelling the Japanese forces area by area from the countries which they had overrun. The atom bomb, whatever may be thought of the rightness of its use, settled that issue by compelling a Japanese surrender much earlier than anyone had dared to hope, and the very suddenness of this surrender had important effects on the handling of the Japanese problem, because it meant that, in effect, the United States occupied Japan

single-handed and took over entire control without anything having been settled in advance about the future of the country, or indeed of the Far East as a whole, and without any arrangements having been made for effective participation in the immediate control by the Allies of the United States. Thus Japan, and to a considerable extent China as well, came to form a closed zone of American influence, at least as much as the countries neighbouring on the Soviet Union fell exclusively under Soviet control. General MacArthur came to be the effective dictator of policy in Japan, and the United States State Department the main influence in the politics and economics of China. It is at first sight surprising with how little protest this situation was accepted in Great Britain, which has after all long and close commercial connections with China and a deep interest in the settlement of the entire problem of the Far East. It was much less readily accepted in Australia, which so narrowly escaped being physically overrun by the Japanese during the second World War. Nor was it accepted, save by necessity, in the Soviet Union; but the Soviet leaders, realising the importance of limiting their objectives in the Far East and weakened in their power to intervene by the late date of their declaration of war against Japan, made no effective stand against what came to be in effect exclusive United States control in that country, and even in China were sparing of help to the Chinese Communists. They gave way grudgingly step by step even in Manchuria, under the joint pressure of the Americans and the central Chinese Government.

In Great Britain the situation was accepted with less protest than it would otherwise have been likely to arouse because, while the war against Germany lasted, very little thought was being given in Great Britain to the problems of the Far East. The Japanese war, though British statesmanship was fully committed to seeing it through, seemed remote while the war in Europe was still in progress, and in particular there was almost no articulate public opinion in Great Britain about the future treatment of Japan—though the situation of course was quite different in Australia as well as in the United States.

Japan's 'Co-prosperity' Sphere

Japanese policy in the second World War and in the period of aggressive war against China which preceded it was based on an idea to which, for purposes of external consumption, the Japanese usually gave the name of 'co-prosperity.' They were fond of speaking of a 'Sphere of Co-prosperity' in Asia, within which the major part of the continent was to become organised under Japanese

hegemony as a great politico-economic *bloc*, based on Asiatic independence of the European powers. These powers were to be driven out from their colonial possessions over the whole of this vast area—the Dutch from Indonesia, the French from Indo-China, the British from Hong Kong, Malaya, Burma, and, in due course, India as well, for India too figured in Japanese dreams as a part of the Japanese sphere of hegemony. China, under a puppet Government or Governments, was to become reconciled to political and economic subordination to Japan, and was to be broken away from connections with European and American capitalism. The Philippines and Siam were to become assimilated. All these areas were to be developed economically for the supply of materials for the advanced industries of Japan itself, and as markets for Japanese products. Japan's serious deficiencies in many classes of raw materials were to be made up for in this way, and a much higher proportion of the Japanese people was to be found employment, either in industry at home or in the tasks of government or economic supervision abroad, so as to reduce the pressure of population on the crowded Japanese islands. At one time there had been a deal of talk about the need of Japan to find outlets for mass emigration of its surplus people, but in the period of rapid Japanese expansion before and during the second World War much less was heard of this. The idea with which Japan entered the war was not mainly that of gaining territory to which Japanese citizens could migrate in large numbers for the purpose either of tilling the soil or of working in the factories, for in either of these tasks the Japanese would have had to compete with native populations accustomed to even lower standards of living. The main idea was that of building up in the Far East a huge consolidated area within which there would be large enough markets, as well as sources of raw materials, to provide a basis for a greatly expanded Japanese industrialism, and also openings for great numbers of administrative and technical employees who would take over the key posts in the industrially more backward areas, as they had done in Manchuria during the period of Japanese penetration. The policy, therefore, did imply some migration; but the migrants were meant to go, not as ordinary settlers to compete with the native inhabitants of the areas to which they moved, but as supervisors—industrialists, merchants, administrators and technicians—who would occupy the higher and better-paid posts. This was a much more realistic conception than the earlier notion of mass emigration, for it had been shown clearly enough in Manchuria that Japanese settlers would be quite unable to compete as ordinary producers with Chinese

emigrants used to lower standards of living. The leaders of the Japanese State realised that Japanese citizens could settle down abroad only as conquerors and organisers of exploited peoples more backward than Japan in the arts of production and war. That was partly why the Japanese problem was insoluble in terms of peaceful co-operation. Mere outlets for peaceful emigration would have been of no use to them, even if they could have been found. Where there were empty lands the climate was in most cases unsuitable, and even where it was not they would have been in no position to compete economically as ordinary settlers. Japanese expansion, unrestrained by any moral scruples, therefore took the form of attempted conquest with the purpose of superimposing a Japanese governing and administrative class upon the conquered countries and of exploiting the peoples of the so-called 'Co-prosperity Sphere' in the interests of Japan. This type of expansionism was the more dangerous because it fitted in so well with the militaristic temper of the classes which were chiefly dominant in Japanese society and were in a position, in the last resort, to override political opposition within the country itself.

Militarism and Politics

Under the Japanese system which existed up to the surrender of 1945, the centre of gravity had been for a long time the army, with the navy taking second place. The political parties were relatively unimportant, and were easily swept aside in times of crisis, despite their close links with the great industrial concerns—Mitsui, Mitsubishi, and the rest—which dominated large-scale industry. In Japan, industry and the State had long gone hand in hand. The great combines expected and received the utmost help from the State in expanding and in consolidating their position in world markets; but in return they regarded themselves as servants of the State—by which I mean, not merely as servants of the Parliament or the political Government, but much more as servants of the great military machine which was in the last resort the State's controlling power.

Japan was, in effect, a fully-fledged totalitarian State long before Germany. For a short time after the first World War, while it was believed that the League of Nations might become a reality and democratic forces might prevail in Europe, some homage was paid in Japan to notions of parliamentary democracy. But the mood passed as soon as, in Europe, the old games of power-politics were renewed; and even before Hitler had come to power in Germany, Japan had opened in Manchuria and China the first stages of the campaign for military hegemony of the Far East. The

Manchurian crisis was, indeed, the first plain and obvious defeat of the League idea in a major conflict; and Japan was quick to apply the lesson that no notice need be taken of the Western Powers' professions of loyalty to it.

The Japanese leaders were, of course, well aware that, in these days, no country can play power-politics on the world stage with lasting success unless it has, or can acquire, essential sources of power, such as oil, and in addition to these the economic resources needed for building up great metal, electrical and chemical industries. In these respects Japan is, by nature, none too well equipped. Japanese coal resources are not inconsiderable, but they are of low quality, and a substantial part of them, in Southern Saghalien, has now been lost by cession to the Soviet Union. There is not much iron ore in the country, to serve as a foundation for a self-subsistent steel industry; and many of the vitally important non-ferrous metals are either absent, or present only in small amounts. Raw and semi-manufactured materials have accounted for about 80 per cent. of Japan's total imports, as against about 12 per cent. for manufactures and 8 per cent. for foodstuffs. Cotton forms the largest single item in this bill for imports; but iron ore, pig and scrap iron, and other metals also figure largely, as well as oil and rubber.

Industry in Japan

Japanese industrialism has been an affair of strong contrasts. Side by side with huge, very modern establishments there has been a wide prevalence of very small-scale enterprises, still carried on by primitive methods. It has been said that Japanese industry is a mixture of the eighteenth and twentieth centuries, with the nineteenth century left out. But the control of finance and marketing has been much more centralised than production; and the numerous tiny enterprises have depended for their markets largely on the big combines, which have been by no means confined to single industries, but have spread over almost the whole field, controlling banks and merchant businesses as well as the modern factories. The Mitsui combine, which controlled about a quarter of the total capital invested in joint-stock enterprise, was pre-eminent in mining; the Mitsubishi combine in engineering and shipbuilding; the Sumitomo in steel and non-ferrous metals; the Yasuda in shipping and colonial expansion—and they were all actively concerned in foreign trading, and dealt not only in their own products, but in those of the smaller-scale producers who were under their control through their financial power.

Exports were needed in large quantities to meet Japan's bill for

imports, though the country provided most of its own food, except soya beans, which came from Manchuria. Cotton and wool had both to be imported, and cotton was the basis of Japan's greatest export trade, and accounted for nearly a fifth of total exports. The materials for rayon and staple fibre, in which Japan had built up a great production, could mainly be found at home, though some wood-pulp was imported; and of course Japan was by far the world's greatest producer of raw silk. But Japanese industry as a whole was heavily dependent on supplies from abroad; and one of the principal aims of the expansionist policy had been to bring under Japanese control territories which could produce the materials needed and receive Japanese products in return. Korea and Manchuria were already valuable sources of materials, as well as markets, for the Japanese; and China was potentially a great reservoir of materials as well as an enormous market for cheap consumers' goods. If the aims with which Japan entered the war had been achieved, the Dutch Indies would have been brought within the closed circle of 'co-prosperity' as suppliers of oil and rubber. Malaya's rubber and tin, Burma's oil and rice, India's cotton and pig iron would have become purchasable with Japanese exports without the need for other sources of foreign exchange; and in due course China would have been developed as a supplier of a wide range of mineral and other products and would have come to be related to the Japanese economy much as the Nazis aimed at turning Eastern and Southern Europe into suppliers of the raw and semi-manufactured products needed for German industry—and on similar unfavourable terms of exchange.

In a comparative sense, Japan was not a highly industrialised country. In 1930 just over half the total occupied population was engaged in agriculture and fishing, and less than 20 per cent. in industry and mining. Transport accounted for only 3 per cent.; but distribution and commerce stood very high, at 17 per cent., on account of the large numbers of small shops and the extensive preoccupation with foreign commerce. In industry, textiles accounted for a high proportion of total employment; and more than half the total number of industrial workers were employed in tiny workshops employing fewer than five workers.

The Future of Japanese Industries

This meant that Japanese heavy industry was a highly artificial structure, dependent almost entirely on a few big combines and on the support of the State. It did not produce at all largely for export, save where materials produced by it entered into light

finished goods, such as bicycles and small metal ware. The total eradication of the heavy industries would have very much less effect on the conditions of the Japanese people than that of the Ruhr would have on the German standard of life. The principal exception to this generalisation is shipbuilding, in which the Japanese had built up for themselves a very important position. In the years just before 1939 Japan's shipyards were launching at the annual rate of about 450,000 tons—about the same as Germany, and very much more than any other country except the United Kingdom. This industry of course depended on the heavy industries for its supplies of materials and components; and it underwent further intensive development after 1939. The loss of the shipyards, or a severe restriction on their scale of operations, will greatly alter the conditions of Japan's economic life, and will probably be one of the most effective penalties that can be imposed with a view to preventing future aggression. It will not prevent Japan from remaining in the world market as a large-scale exporter of consumers' goods; but it will effectively check the resumption of imperialistic policies of expansion based on maritime power.

Deprived of heavy industries and of a proportion of its shipyards, Japan would naturally turn more intensively to the development of light industry. This, which is evidently the intention of the Americans, now in virtually complete control of Japanese affairs, is not at all to the liking of the leaders of industries, such as the Lancashire cotton industry and the Birmingham light metal trades, which fear Japanese competition in the world market, particularly in colonial and other economically backward territories. But from the standpoint of the peoples of such territories it is the best thing that could happen. The Powers which are in possession of colonies whose populations are very poor and backward will be guilty of gross exploitation if they attempt to monopolise such markets for their own manufactures, regardless of the prices charged. As Sir Harold Butler, when Director of the International Labour Office, pointed out in one of his Annual Reports, cheap Japanese bicycles have been a godsend to peasants in many backward areas. These bicycles have not been bought *instead* of the bicycles offered by Coventry or by the manufacturers in any of the more advanced countries. They have been bought mainly by persons much too poor to afford any bicycles at all, unless the Japanese had offered a remarkably cheap article. Similarly, cheap Japanese textiles have been bought by millions of persons who could by no possibility have afforded Lancashire's superior products; and the same thing could be said

of many other goods produced by the lighter industries of Japan.

It is greatly to the world's interest that the skill of the Japanese in making really cheap consumers' goods suitable for the populations of poor and backward countries shall not be wasted. Gradually, no doubt, the backward countries will learn to make for themselves many of the consumers' goods which they need at present to import; but they cannot, for a long time to come, meet more than a fraction of their diverse needs out of their own production. They would, indeed, merely wreck their own chances of producing at reasonable costs if they were to spread their efforts to set up their own manufactures over too wide a field; and they have a right to be assured that the more advanced countries will not, in the supposed interests of their own manufacturers, seek to exclude Japanese goods from the colonial markets. I say "supposed interests," because I am sure that the real interest of the more advanced countries lies in doing all that can be done to improve living standards in the more backward. The hope of exports for the advanced countries lies in anything that will make the poorer peoples of the world better off; and there is no doubt that the industries of Japan, given the requisite access to the world's markets for light consumers' goods, can make a considerable contribution to this. Before the war, about 45 per cent. of Japan's total exports consisted of textiles, and the rest mainly of a most varied range of consumers' goods, from bicycles and electric lamps and bulbs to pottery, glass, tinned and bottled foods, and paper-ware of many kinds.

The 'Cheap Labour' Argument

It has sometimes been argued that it is fair and reasonable—even apart from any punishment for war guilt, or from any measures necessary to prevent a resumption of Japanese aggression—to exclude Japanese goods because they are the products of cheap labour. But the labour with which they are made is cheap only by the standards of the advanced countries: it is substantially better paid than the labour of most colonial peoples, or than the labour of Indian and Chinese workers. This remained true despite some fall in real wages in the 'thirties, largely as a consequence of the widespread agricultural distress. This distress in turn was due mainly to the collapse of raw silk prices which followed on the depression in the United States. A large proportion of Japanese small farmers had relied on the cultivation of the silkworm as a secondary source of income; and when this source almost disappeared in the slump, there was no way of making it good, and

the daughters, and to a smaller extent the sons, of the poor cultivators were forced into industry at whatever wages they could get. Nevertheless, Japanese industrial wages remained substantially higher than those paid in other Asiatic countries; and it is an absurd notion that peasants much poorer than the Japanese workers ought to be prevented from buying Japanese goods because they are products of 'sweated labour.'

Heavy Industry and Imperialist Penetration

As against the desirability of allowing Japan to resume the development of the lighter industries for export, there is a plain necessity to cut down drastically the heavy industries which have been used, under the control of the militarists and of the great combines, mainly as instruments of political aggression. If Japan is to be allowed to remain an important producer of metal goods —as I think it must be in order that the poorer peoples of the world may not be deprived of supplies for which they can afford to pay—there must at any rate be rigid control of both the home production and the import of the metals themselves, and a strict limitation of those branches of metal-working which are capable of forming a basis for a war economy. Japan's metal manufacturing industries used to depend largely on imports, including large quantities of scrap metal from the United States, as well as pig iron from India and iron ore from China, Malaya and Australia. Of these countries, India is likely to make rapidly increasing use of its pig iron in its own steel-making plants, and China and Australia are both likely to become considerable producers of iron and steel. The key to the control of Japanese metal manufacture, to the extent to which it is allowed at all, will be the regulation of the export of scrap metal from the United States, for, without large supplies of scrap, Japan is very ill-placed for the building up of any extensive manufacture of metals. Given this regulation, it should be quite possible to work out arrangements whereby Japan can remain in the world market as a producer of finished light metal goods without any danger of the permission resulting in the creation of a new war potential. There will also have to be, as a matter of course, strict regulation over the import of the non-ferrous metals, on the same lines as the controls to be established for this purpose in the case of Germany.

Sino-Japanese Relations

The discussion of the future of Japanese industry and of the Japanese people cannot well be carried further without bringing in the factor of relations with China, and also that of the future of

Japan's dependencies on the continent of Asia. The Japanese, as the first stage of their expansionist policy, sought after the war with Russia in 1905 to build Korea and Kwantung and the southern half of the Russian island of Saghalien, with its coal deposits, into a consolidated Japanese empire. The second stage was reached with the occupation of Manchuria, where the Japanese already held Kwantung and the South Manchurian Railway Zone, in 1931; and the third with the virtual annexation of China's Mongolian provinces in 1935. A further stage was reached two years later, when the Japanese occupied the whole of the provinces of Chahar and Hopeh and most of Suiyuan and Northern Shansi. Since then, of course, their armies have ranged far and wide over most of China, including the south; but the original penetration was rather in the north, and Japanese influence was most firmly entrenched in the northern provinces. The areas there conquered by the militarists were placed under puppet Governments wholly subservient to Japan, and were held down by armies of occupation instructed to "live on the land," so as to make little call on Japan itself for supplies. In no other way could the Japanese have afforded to follow the policy of rapid military and economic expansion which the militarists were determined to carry through; and the subsequent extension of this same policy of "living on the land" to the whole occupied area became the basis of Japanese achievement in face of the limited resources of the home country.

Korea and Manchuria

Even after the Japanese had been driven out of the areas which they had occupied after Pearl Harbour and out of the vast territories held by their armies in China proper, there remained the problem of expelling them from their position on the mainland further north. Here they had long held Korea, formerly an independent country, economically and politically backward, but possessing considerable natural resources, and, in addition, their influence had been strong in Manchuria, which they had repeatedly attempted to incorporate completely in the Japanese economic empire.

In Korea a national independent movement of a sort had continued in existence throughout the period of Japanese rule, but it had lost contact with developments inside the country and afforded no real basis for a resumption of independence. Korea, in effect, became after the fall of Japan a disputed territory between the Americans and the Russians, and was occupied by American and Russian armies which divided it across the middle

into two separate zones. The importance of Korea lies partly in its possession of considerable mineral wealth which the Japanese had begun to develop. Besides a substantial output of gold and silver, it possesses tungsten, lead and copper, and also some coal and iron. Korea has a population of about 25 millions, and large numbers of Koreans have in the past gone to work in Japan, where their readiness to accept low wages provided industry with supplementary sources of cheap labour and thus helped to keep down Japanese wage-levels. As against this migration of Koreans to Japan, there were in Korea in 1939 nearly 600,000 Japanese, mainly holding military, administrative and trading positions, and their expulsion has presented a difficult problem, as most of the key posts have long been in Japanese hands. Even if there had been no dispute about spheres of influence between the Russians and the Americans, the restoration of Korean independence would have been by no means a simple matter. In face of this rivalry, the difficulty is greater still.

In comparison with Korea, Manchuria is an empty country, with a population of about 40 millions spread over an area of 500,000 square miles. The population of Manchuria consists largely of immigrants, mainly from China and Korea. There were in 1939 about 350,000 Japanese, but more than half of these were in the special Railway Zone; and here again most of them were soldiers, administrators or traders and not agricultural settlers or ordinary industrial workers. It is often said that the reason for Japan's failure effectively to colonise Manchuria was climatic; but the main cause was rather the inability of Japanese settlers to compete economically with Chinese and Koreans, whose standards are lower.

Manchuria, despite Japanese activity in the Railway Zone, is still mainly undeveloped. It possesses much coal—for the most part not suitable for coking—and, though it has no petroleum, it possesses shale deposits which can be very cheaply worked. It is also rich in iron ore, of rather low mineral content, and situated at a considerable distance from supplies of suitable coal. There is also some gold. But the main economic activity of the Manchurians is the production of soya beans, of which they are by far the world's largest exporters, with Japan as the principal market. Manchuria's iron has been of the greatest importance to Japan as a source of war supply; but the soya beans of Manchuria are no less indispensable to the Japanese in peace than in war, not only as a foodstuff, but also as a fertiliser and as a source of materials for a wide range of industries, from soap to plastics and from paints to rayon. There are also in Manchuria vast forest areas,

still very little exploited: there is room for many millions more settlers, provided that they are prepared to work on equal terms with those who are already there.

Manchuria, even more than Korea, is a disputed sphere of influence. The national Chinese Government of Chiang Kai-shek claims the whole area as part of China, and seeks to re-establish in it full Chinese control. In this Chiang Kai-shek has the support of the Americans; and the treaty between China and the Soviet Union recognises Chinese sovereignty while granting to the Russians certain special concessions in the Dairen peninsula and in the Railway Zone. But the position is complicated by the political complexities of the Chinese situation, for the position of the Chiang Kai-shek Government is disputed not only by the Chinese Communists at Yenan but also by large bodies of local 'Communists' and other irregulars in Manchuria itself. The Red Army occupied Manchuria in the last stages of the Japanese war; and, in withdrawing slowly in accordance with the terms of their agreement with the Chinese Government, the Russians removed as much equipment as they were able to take with them as war booty, and seriously dislocated Manchurian industries as a result. The Americans, giving full support to the Chinese National Government, objected strongly to these removals, and also accused the Soviet Union of giving help to the Chinese and Manchurian Communists in resisting the reoccupation of Manchuria by the Chinese national forces. Repeated attempts have been made to arrive at a settlement under which the Communists would agree to the occupation of the country by Chiang Kai-shek's forces, and various truces and cessations of hostilities have been actually arranged, only to break down repeatedly in face of the continued deadlock between the rival Governments in China itself. On the whole, the struggle has gone in favour of the Americans and of Chiang Kai-shek, but it is by no means at an end. The Communists have been driven out of most of Southern Manchuria by American-equipped and American-transported Chinese Government forces; but their hold remains strong in the northern part of the country, and the fate of Manchuria is bound up with the general conditions of political settlement in China itself. The Soviet Union and the United States are still actively disputing the future control of Manchuria's large and largely undeveloped economic possibilities.

China

China, with its vast territory and population, now ranks officially as one of the five great powers which hold the leadership

of the United Nations. Its power, in the near future, to play effectively a part corresponding to its nominal standing among the nations remains in doubt. There has been much dispute in recent years about the extent of China's natural resources and the practical possibilities of their economic development. These resources are still in great part unexplored and their quantity unknown, and the most various estimates of them have been made. According to some authorities, China possesses sufficient materials to become in due course one of the world's great industrial nations. According to others, the resources themselves are much more limited than has been suggested and are so ill-placed in relation one to another and to the means of transport as to put heavy obstacles in the way of their effective use. I do not profess to be able to unravel this tangle of conflicting estimates based on scanty evidence. It is, at the least, true that China does possess resources adequate for much larger economic development than has at present taken place. Indeed, the acquisition of these resources was one of the main motives for the Japanese invasion of the country, and Japan, during the period of occupation, did at least something to mobilise Chinese materials and to further the development of Chinese industry as an auxiliary to that of Japan. The actual accomplishments of Japan in this field were, however, very limited, for the Japanese themselves lacked the means of providing China with the capital equipment needed for the development of China's raw materials or for improving the systems of transportation in the interior of the country. Consequently, the Japanese were able to do little more than get what they could out of enterprises which had been instituted before their arrival on the scene, and, even so, their efforts were in many cases hampered by the precariousness of their hold on the country.

In effect, although the Japanese armies, beginning in Manchuria in 1931, steadily overran the greater part of China province by province, the Japanese writ never ran far beyond the actual places where armed forces were stationed in strength and the lines of communication which were kept under Japanese guard. Over a large part of the area nominally occupied by the Japanese, guerrilla armies continued to operate between the Japanese lines, and, as fast as the Japanese armies moved to new positions, the areas which they vacated were apt to slip from their control. The puppet Governments which they instituted in various parts of the country had little authority, and to a considerable extent the invasion meant for the villages rather the disappearance of all central government than the substitution of Japanese

for Chinese central authority. To the fullest extent that was possible, the Japanese were instructed to "live on the land," so as to make the smallest possible calls on supplies from Japan itself. This reacted seriously both on the peasants, who suffered heavily from requisitioning, and on the town populations, who became the victims of large-scale inflation, and the general effect was that of a dissolution of authority and an increase of insecurity, even beyond what the Chinese people had been used to under the succession of precarious régimes that had held power since the revolution of 1912.

The Kuomintang and the Chinese Communists

To the evils wrought by Japanese invasion were added, throughout the period with which we are dealing, those of civil war. The Government of Chiang Kai-shek and the Kuomintang has at no time held authority over the whole of those parts of China that have been free from Japanese occupation. Always there have been rival Governments—formerly those of local war lords or provincial governors who refused to obey the orders of the centre or to collect its taxes for it, and latterly those of Communist China, first in the south-east of the country, and then, after the historic march of the Eighth Route Army, far away in the north-west. The Kuomintang, once the party of nationalist revolution and the proclaimed inheritor of the celebrated testament of Sun Yat Sen, came, after the success of the revolution, as such nationalist parties are apt to do, mainly under the domination of its right wing supporters, and the tactical errors of the Soviet Union in handling the Chinese problem in the 1920's led to a complete breach between the Kuomintang and what had been its own Left Wing. After the breach there arose in China a new kind of Communism, no longer closely attached to Moscow but following a policy of its own, with land reform and the lightening of debts in the interests of the peasants as the main features of its social policy. Against this policy of agrarian reform the reactionary leaders of the Kuomintang set their faces, and under their influence Chiang Kai-shek fought a war on two fronts—against the Japanese and against the rival Communist Governments in China itself. The Chinese Communists, for their part, fiercely resisted the Japanese, and succeeded in building up an army which was remarkably efficient in guerrilla fighting, despite severe shortage of military supplies. By comparison, a large part of the huge army nominally fighting for the National Government showed itself utterly inefficient, partly because it too was seriously short of modern weapons but also because service in

the armed forces came for literally millions of Chinese to be the only, or at all events the easiest, way open of getting fed in a country menaced with mass starvation. It is generally recognised that one of the most urgent tasks in China to-day is to cut down drastically the numbers of men in arms; and in the negotiations that have repeatedly taken place between the rival Governments of Chungking[1] and Yenan an agreed scaling-down of the armed forces has always been one of the main points. It is, however, not easy to reduce armies where there is no work awaiting the disbanded soldiers, for under such conditions the disbandment of regular forces may easily lead to a great increase in the amount of sheer banditry. The vast numbers serving in the armed forces of the National Government are at any rate under some sort of discipline, even if it be very lax: and disbandment might easily lead to uncontrollable outbreaks of lawlessness over a large part of the country. As against this, the influence of the reactionary war lords who have continued to exert great power inside Chiang's Government rests on their retention of large military forces under their own control; and the effective disbandment of these forces would be a big step towards an increase in the influence of the more progressive elements inside the Kuomintang and of the smaller progressive parties which have grown up outside its ranks. It is noteworthy that General Marshall, who had been engaged for more than a year before his appointment as United States Secretary of State in endeavouring to arrange an accommodation between the Kuomintang and the Chinese Communists, laid, in his report upon his mission, the major part of the blame for its failure on the reactionary elements in the Kuomintang Government. The Chinese militarists who surrounded Chiang Kai-shek were, according to his account, altogether unwilling to allow any reforms that would lead to a weakening of their own feudal power. This judgment was the more remarkable, as coming from the emissary of a Government fiercely opposed to Communism and engaged in aiding the Kuomintang Government to defeat it with American munitions, American transport, and American financial aid. Moreover General Marshall, while apportioning to the Communists their share of blame, was surprisingly ready to acknowledge the existence of liberal tendencies among them and the value of their social achievements in the areas under their control. In January 1947, however, the United States Government announced that its attempt to mediate between the Kuomintang Government and the Communists had been definitely given up, and that the remaining American forces were

[1] Now moved back to Nangking.

being withdrawn from Chinese territory. It was left uncertain whether the projected American loan to the Chinese Government would be granted, or would be held up pending satisfactory measures of reform in the Government's composition and policy.

What Happened to Chinese Industry

Inevitably, Chinese industry has suffered severely under the conditions of war and civil war. The great centre of developed Chinese industry—Shanghai—fell early under Japanese occupation. The Japanese also got control of most of the more important mining enterprises. The Chinese, in their withdrawal from the areas which were overrun, did their best to carry away with them such factory and workshop equipment as it was possible to move, and many small-scale industries were started up again far in the interior with the aid of plant that had been removed in this way. Much of this transferred industry came under the control of the Chinese Industrial Co-operatives, which gave a remarkable demonstration of the Chinese capacity for improvisation; but the supply of machinery and equipment at the disposal of the Co-operatives was very small indeed in relation to the requirements of the areas remaining under Chinese control, and many of the methods used in the factories established in the interior were necessarily very primitive and inefficient by Western standards. All China, and not merely the areas under Japanese control, has been suffering from an acute shortage of every type of industrial goods, including textiles and other consumers' goods, as well as the products of the engineering and other metal-working industries. These conditions have led, in the areas under Kuomintang control, to an inflation of prices even more fantastic than has occurred in the areas under Japanese occupation, and the Kuomintang Government has shown itself entirely incapable of handling the situation. Consequently, such middle classes as existed in China have been largely ruined, except where they could find salaried jobs in the government service. Wages of industrial workers, always very low, have been sharply reduced in purchasing power, and the peasants have suffered heavily from requisitions to feed the town dwellers and the vast numbers under arms.

The Americans in China

Clearly, there is no remedy for this situation without a large increase both in Chinese production and in imports from abroad. During the war China was for a long time almost cut off from external supplies by the closing of the Burma Road, and such

supplies as did reach the country were destined mainly for military use and did nothing to relieve the general shortage. When the Japanese forces had been liquidated help from U.N.R.R.A. served for a time to stave off absolute collapse; but this source of help was due to come to an end early in 1947, and it was clear that a terrible crisis would follow unless some substitute was found for a further period. Now that, before long, China has to face its own future free from the menace of Japan, the greatest need is to establish internal conditions of tranquillity and to secure a Government that will be able to concentrate its attention on rescuing the population from its economic plight. There are, however, still powerful political obstacles in the way of this. Since the Japanese collapse, the United States forces, which shared with the Chinese in the task of clearing the country, have been giving strong support to the Government of Chiang Kai-shek, and American influence has almost completely ousted other European influences on Chinese development, except in the districts under Chinese Communist control. The American policy, in China as elsewhere, is that of securing the largest possible openings for private capitalist enterprise, and accordingly of supporting the capitalist forces within the country and insisting on the "open door"—which is, in practice, a door wide open to the Americans themselves and very nearly closed to everybody else. The British are still installed at Hong Kong, which used to be a great centre of the *entrepôt* trade between China and the outside world; but the trade of Hong Kong has been reduced for the time being to a trickle, and British influence in Shanghai and in the Yangtse Valley has been very nearly eclipsed. The fate of China clearly depends in these circumstances largely on the Americans, and it is evident that if China is to receive any substantial outside help in the tasks of restoring and developing its economic strength, this help will be bound to come mainly from the United States, and therefore mainly in forms based on the assumptions of private capitalist trading.

Chiang Kai-shek and the Communists

In order to clear China for penetration by American traders and investors, what the American Government wants is a Chinese Government effectively in authority over the whole of China and strong in its handling of internal Chinese problems. The question has been whether this can be done by helping Chiang Kai-shek and the Kuomintang to crush the Communists or by trying to arrange some sort of accommodation which will bring the Communist-controlled areas within the ambit of a more acceptable

National Government. It would be, to say the least of it, very difficult effectively to pursue the first of these policies, for although, with the aid of American arms, Chiang Kai-shek might be easily able in the long run to defeat the Communist armies in the field, the effect might only be a perpetuation of guerrilla warfare which would seriously hamper economic recovery. Accordingly, the Americans, while helping the Kuomintang Government to drive the Communists out of the more easily conquerable areas, did also make some attempt to bring Chiang Kai-shek and the Chinese Communists together in an endeavour to reach an accommodation, and there has been during the period since the Japanese collapse a whole series of negotiations, truces and breakdowns, ending, as American policy became more and more anti-Communist, in the Americans' decision to throw their weight wholly on Chiang's side. American policy had vacillated between full support of Chiang Kai-shek and the attempt to induce him both to come to terms with the Communists and to introduce substantial reforms into his own administration. Chiang Kai-shek, personally, would probably like to introduce some reforms, but he is surrounded by reactionary influences which he is afraid to antagonise, and although on paper the Kuomintang Government has been reformed more than once the underlying realities of the situation have not been greatly changed. It is true that a nominated National Convention, which the Communists and a number of the progressive groups refused to attend, adopted at the beginning of 1947 a relatively liberal new Constitution which was due to come into operation a year later. This was done at Chiang's personal insistence and partly under American pressure; but whether the new system will be allowed to come into operation when the time arrives has still to be seen. It is one thing in China to adopt a liberal 'paper' Constitution: it is quite another thing to make it work if the militarists and the rich supporters of the Kuomintang are against it. In the meantime, the negotiations broke down largely over the demand of the National Government; backed by the Americans, that the Yenan Government should bring its armies under the control of Chiang Kai-shek, by merging them in the national forces, both Communist and Kuomintang armies being at the same time drastically cut down in numbers. The Communists did not reject these demands in principle, but insisted on conditions, about the the retention by the Communist armies of their separate identity, about the reform of the central administration at Chungking, and about the retention of control over areas from which they have been chased with American help.

The entire political outlook was altered in March, 1947, by the capture of Yenan, the Communist capital, by Chiang's forces, and remains uncertain as I write. Suppose that, somehow, the difficulties are overcome and China settles down, either under a single reformed National Government or alternatively under two rival Governments with defined territories and with treaty relations which, for the time being at any rate, put an end to actual fighting. What, in these circumstances, will it be possible to do for the development of the Chinese economy and for the raising of the appallingly low standards of living which prevail in every part of the country?

The sheer economic problems of development in China are largely the same as those which confront India. In one sense, the difficulties are even more formidable, because China has no nest-egg of credits in London or elsewhere on which drafts can be made to set the process of capital investment at work. On the other hand, the Americans are deeply concerned in the development of China as a market for United States products, and have ample supplies of capital which they can use for the development of the country if they are so minded. The Chinese themselves are clearly in no position to make any substantial contribution to the development of their own resources, except in the form of labour; and even labour, diverted from the immediate task of providing for its own consumption, is bound to be dependent for its maintenance on foreign finance. A vast territory, with a population of perhaps 400,000,000, for the most part living near starvation-level even before the fighting, and now exhausted and enervated by fifteen years of war and blockade and of exploitation by occupying armies living off the land, can be in no easy position now or in the near future to set aside any part of its scanty national income for investment at the expense of immediate consumption. In the more fertile areas, the population is already crowded together at a very high density: where the population is sparse, the reason is either that the fertility of the land has been destroyed by continuous use or that it cannot be exploited without large prior expenditure. Denudation of forest areas has played a terrible part in some large tracts, notably in central China, in rendering land arid and unusable, and the war has now added in many places its further quota of destruction. The need for re-forestation and for other methods of land reclamation and improvement is immense, and calls for a vast expenditure of capital which can only be provided for the most part under public auspices. The need for more railways and—still more—for better

roads is not a whit less pressing, and, in total, the tasks to be faced are so immense and formidable that nothing effective can be done except on a grand scale.

Yet China, even if exaggerated estimates of its economic potentialities have often been made, does undoubtedly possess very considerable economic resources that are capable of effective development. There is plenty of coal, including at any rate a fair amount of good coking coal, still mainly unexploited. Iron ore is fairly plentiful, and includes deposits of considerably higher quality than those of the Manchurian iron fields. China has the largest output of tungsten in the world—indeed, more than half the total world output has come from Chinese mines; tin, also, is plentiful, and in antimony as well as in tungsten China is the world's leading producer. Manganese used to be mined on a considerable scale, but the output has fallen away to very little in recent years, and I do not know whether the Japanese succeeded in reviving it during their period of occupation. In total, China's resources of raw materials are considerable, but the known resources are for the most part ill-placed in relation one to another, and their effective development depends on the improvement of transport facilities in areas far from the sea and as yet hardly opened up by rail or even by road. In China, as much as in India, stable government is a prerequisite of effective economic development. It may, however, not be necessary for the whole vast country to be planned economically as a single unit. Indeed, it is quite possible to conceive of entirely separate economic plans under separate Governments being developed for Northern and for Southern China; but for any plan to be feasible, there must be, over the area covered by it, a strong central Government carrying real authority, and this Government must be in a position to carry out the terms of any bargains it may make with other countries which are potential suppliers of the requisite capital goods and of skilled technical supervision and advice. This means, in practice, that, as far as Southern China at least is concerned, any Government that sets out to plan for the economic development of the country must come to terms with the United States, and will be compelled to accept forms of development which are tolerably satisfactory to the Americans. The same conditions probably apply to the greater part of Northern China, for the Soviet Union —which is the possible alternative supplier of foreign capital and assistance—will probably not be for some time in a position to spare resources for such a purpose. For this reason, the best hope of sparing China from a continuance of civil war and economic destitution seems to lie in a reformed National Government with

which the Chinese Communists and the liberal elements in the rest of China will find it possible to co-operate. Such a solution implies on the American side a willingness to embark on large-scale capital development, including a high proportion of investment which can be made only under government auspices and under public control. In China, as in India, the prime need is much less to develop heavy industries, or mining, or even highly-equipped consumers' industries adopting the most up-to-date Western methods, than to institute large public schemes for the improvement of the land and for the development of transport facilities by road and rail. These are the foundations on which the material advancement of the Chinese people needs to be based. It will be of no advantage to them if the mills of Shanghai are again set going at full speed, or if there is large development of mining enterprise for the supply of raw materials for export. Their supreme need is an improvement in the basic conditions of agricultural production, and, side by side with this, a development of consumers' industries manufacturing goods for the local market, not necessarily by those methods which Western efficiency engineers would deem the best, but rather by those which come easiest to hand and can be most easily fitted in to the existing structure of the Chinese village community. To urge this is not to undervalue the importance, in the long run, of the development both of heavy industries and of more advanced methods of producing consumers' goods. These things should come in due course, but, for some time to come, all the external capital that China is likely to be able to command will be needed for the fundamental tasks of improving agricultural production and means of transport.

The trouble, of course, is that if foreign investment in China continues to be dominated, as such investment has been in the past, by the desires of foreign financial agencies in search of materials for their own industries and of the highest possible profits, events are likely to take a totally different course. China can be developed as a market for American industries only if the standards of living in the country can be raised, and it is therefore in accordance with the interests of American capitalists generally, although not of the particular groups most interested in foreign investment, to enable the Chinese to improve their basic conditions of production rather than to concentrate attention on the development of heavy industries or of highly mechanised factories producing largely for export. The question is whether the Americans will see this, and whether, even if the American Government does see it, the vested interests will not nevertheless

get their way, to the detriment both of American exporters and—what is much more serious—of the Chinese people.

Must China Stay Poor?

Humanly, the case is clear enough, for why should China remain poor even if its natural resources prove to be much less abundant than was widely supposed not long ago? Knowledge should know no frontiers: there are resources enough, with the aid of knowledge, to lift the people within a measurable future out of the extreme poverty in which most of them now exist. It is not as if the Chinese were a primitive people, at the tribal stage of some Asiatic and many African countries. They are a people of high culture, with a large educated class, and a high capacity for learning anything they set their minds to learn. No one, I suppose, can doubt their capacity, as individuals, to master the arts of modern production if they so desire and are given half a chance. Of course, this is not the whole story; for the values of Chinese culture come at many points into sharp conflict with the values of modern industrial societies and, to that extent, the existence of Chinese culture is not a help but an obstacle to the adoption of Western methods of advance. But I, at any rate, find it impossible to believe that deep poverty, with its unavoidable accompaniment of ill-health, high infant mortality, and perpetual insecurity in the battle with nature, is anything but an evil; or that there is no way of reconciling the pursuit of material wealth on the basis of modern applied science with the maintenance of the sense of community and of communal values which is an essential part of the good life. What I am sure of is that this reconciliation can be achieved only where it is the work of the people themselves, making their own new social structure and not having it imposed on them from outside by strangers whose interest in them is, at the worst, merely predatory and, at the best, benevolent in a superior and in a mainly derogatory fashion.

Large- and Small-scale Industry in China

If, however, the Chinese people are to make over their own civilisation, so as to develop a new culture impregnated with the science of the West, the job is bound to be hard, and success relatively slow, even with the help of capital goods and advisers lent by the countries which are economically more advanced. Probably as little as India can China make a sudden leap in economic achievement comparable with the leap made by the Soviet Union. The most notable successes of the Chinese Communists have been in improving the conditions of land tenure—in

reducing rents and getting rid of local indebtedness and of the exactions of war lords and petty officials—rather than in attempting to change the area under their control into the semblance of a modern industrial society. It may be retorted, quite truly, that to attempt this latter task has been wholly beyond their power, isolated as they have been and devoid of the means of constructing anything in the nature of a modern productive establishment. But I doubt if this isolation has been the only obstacle. The much lauded achievements of the Chinese Industrial Co-operatives have also been rather in the field of small-scale and technically primitive production than in the adoption of modern scientific techniques. Here again it may be answered that there has been no chance for them to achieve, or even to attempt, anything else; but once more the retort is that the first line of advance for China is to be found much more in improving agricultural conditions and in developing small-scale local industries than in reproducing over a vast area the mills of Shanghai. To suggest this is not to dispute the need for the development of large-scale industries organised under a general economic plan: it is only to raise the question whether, in all the circumstances, the pace of such a transformation can be at all rapid, or its foundations assured, unless the ground is made smoother for it by comprehensive land reform and rural road-making, and also by the widespread development of industries organised, from the Western standpoint, on somewhat primitive lines. The economics of highly mechanised production imply in general a situation in which capital is easy to come by and labour relatively scarce. There are, of course, some enterprises in which nothing can be done except on a large scale and with the aid of very expensive capital equipment—electric power stations, railways, and most kinds of mining and metal manufacture, for example—and up to a point such enterprises are indispensable as a basis for economic advance. But the same is not true of the great textile factories of Shanghai, which can no doubt produce yarn at lower costs than simpler installations, where the question is one of profit to the *entrepreneur*, but can achieve little in improving the living conditions of the mass of the people. When popular welfare is the object, much greater benefits may be derived, in view of the plenty of labour, from a diffusion of small industrial enterprises, preferably Co-operative in organisation, in provincial centres and country districts; for such small workshops may afford a standard of living, meagre from the standpoint of the dweller in large towns, but well above that of the peasant households from which the labour can be drawn without any diminution in the volume of agricultural production, and

with much better hope of getting the goods that are produced into the consumers' hands with a minimum of middlemen's charges. It is misleading to measure the output of such dispersed factories by ordinary commercial calculations of costs; and costs could be considerably reduced by concentrating capital expenditure on the expansion of cheap electric power. Moreover, the small workshop involves much less of a breach with the established ways of living, much less concentration of population in vast, overcrowded cities, and much less destruction of the communal basis of family life.

Even if this is the way of development to be mainly followed by Chinese industry in the immediate future, there will be need of big imports of capital goods for the improvement of transport conditions, the installation of electric power, and the institution of more advanced agricultural techniques. Faced with these requirements, China cannot afford, in the near future, to devote much capital to large-scale factory production; and there is great need of an economic plan designed to direct such foreign capital as can be made available into those uses in which it can be made best to serve the entire body of consumers rather than either the profit of investors unconcerned with popular welfare or the interests of other countries aiming at making the Chinese economy the servant of their own industrialists.

NOTE: In March, 1947, a Conference on Asian Relations summoned by the new Congress Government of India (but boycotted by the Moslem League) decided to set up a permanent Asian Relations Organisation and to summon a further Conference to meet in China in 1949. This Conference, attended by Nationalist delegates from a large number of Asiatic countries, including the Asiatic Soviet Republics belonging to the U.S.S.R., as well as, many others, China, Mongolia, the Philippines, Persia, Viet-Nam and Indonesia, is quite independent of the Far Eastern Organisation set up by U.N.O. (see p. 1044). It seeks to represent the Nationalist forces of Asia as a whole, and not only of the Far East, and is an attempt by the Indian leaders to place themselves at the head of an Asian Regionalist movement based on independence of European control. It is too soon to attempt any assessment of its prospects

CHAPTER IX

DEVELOPMENT IN COLONIAL AREAS

THE WORD 'COLONY' HAS changed its meaning. It used to mean an area in which settlers from a mother-country had made their homes and set up a community of their own, remaining in political allegiance to the country from which they had set forth. The British North American colonies were 'colonies' in this sense, until they broke away to form the United States; and so were the colonies of Australia and New Zealand, until they became self-governing Dominions. But to-day the word 'colony' usually means a territory annexed by an advanced country, but inhabited mainly by 'natives' at a low standard of living and civilisation,

EMPIRE POPULATIONS, 1939

(*Thousands*)

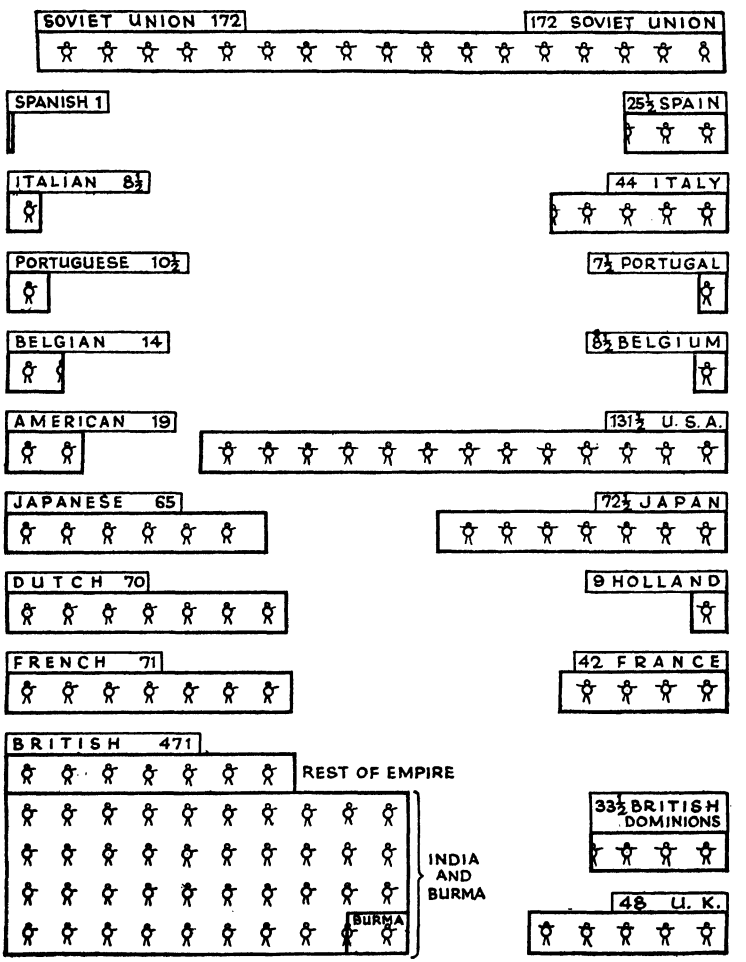
The British Empire	*Europe*	*Asia*	*Africa*	*America*	*Oceania*	*Total*
United Kingdom	47,778	—	—	—	—	47,778
Dominions	2,936	—	10,251	11,662	8,639	33,498
India	—	382,000	—	—	—	382,000
Direct Dependencies	290	32,247	52,404	2,727	431	88,099
Dominion Dependencies	—	—	330	5	1,050	1,385
	51,014	414,247	62,985	14,394	10,120	552,760

Other Empires	*Home Country*	*Asia*	*Africa*	*America*	*Oceania*	*Total*
U.S.A.	131,416	16,300	—	2,011	456	150,183
French	41,950	27,970	42,780	611	150	113,461
Belgian	8,396	—	14,156	—	—	22,552
Dutch	8,834	69,435	—	284	—	78,553
Italian	43,864	122	8,480[3]	—	—	52,466
Spanish	25,600	—	1,075	—	—	26,675
Portuguese	7,620	1,430	9,165	—	—	18,215
Danish	3,825	—	—	18	—	3,963[1]
Japanese	72,520	65,000[2]	—	—	127	137,647[2]

Mandated Territories are included in the totals.

[1] Including Iceland.
[2] Including Manchukuo, but excluding occupied China.
[3] Including Ethiopia (5,300).

EMPIRES AND HOME COUNTRIES 1939



POPULATIONS IN MILLIONS

with only a sprinkling of white people, some of them settlers, but mostly engaged in various kinds of administration or in the direction of industrial and trading concerns controlled from outside the colony. Indeed, many of the 'colonies' of to-day are manifestly unfitted for white settlement on any considerable scale, either for reasons of climate or because white men could not hope to live side by side with the native inhabitants at an economic standard which would make their settlement worth while.

Of course, there were native inhabitants in the colonies of the older sort—colonies that were really settlements of emigrants from the mother-country. In most cases, these native inhabitants got short shrift. The North American Indians, the Australian aborigines, and other native peoples have been nearly wiped out. The early settlers had very little notion of any rights worthy of respect as belonging to 'natives' who were neither 'whites' nor Christians of any brand. They took what land they wanted to make their own settlements, and went on taking more as they wanted more—either without any recognition of native rights or, where some formal recognition was given, by methods which were fully as effective as stark force in extinguishing these rights. In most cases, private ownership of land was unknown among the native peoples; but the white settlers, carrying with them their own conceptions of landed property, assumed that the land belonged to the native chiefs and persuaded or forced them, in return for ludicrously inadequate compensation, such as a few trade goods or bottles of raw spirit, to sign the tribal lands away. The chiefs seldom had any clear idea of what they were doing—for the very notion of private ownership of land was unfamiliar to them—but the white man's law, imposed with the white man's rule, upheld and upholds to this day the legality of these swindling transactions; and in many parts of the colonial empires of the European powers the native inhabitants are now crowded into 'native reserves' which are quite inadequate for their support and consist largely of the worst lands or those most infested with tropical pests and diseases. Native cultivation in many areas is still of the 'moving' type: a patch of land is cleared, cultivated for a few seasons, and then allowed to revert to jungle until its fertility has been restored, the cultivator moving on meanwhile to another patch. No account has usually been taken of this type of agriculture in determining the amount of land to be left for native use—with the result that the natives have often been driven to resort to continuous cultivation of the same patch of ground. As the natives know nothing of scientific rotation of crops or other advanced agricultural methods, and would have great difficulty in

applying such knowledge even if they had it, continuous cultivation means the progressive exhaustion of the soil, and the creation of 'dust bowls' like those which have been caused by bad husbandry in the United States. Trees and undergrowth are cut down and not replaced: the soil grows dry and dusty, and wind and rain blow and wash it away. White settlement, over a large part of Africa, is so far from bringing about improved tillage or more advanced agricultural methods in any field that it is turning more and more of the land, where the evil is worst, from forest not into productive country but into sheer desert.

Colonies and Mineral Resources

This is one aspect of white 'colonisation,' in the modern sense. But in many colonies the white men do not want a great deal of land, because there are large openings neither for white agricultural settlement nor for plantations where native or imported 'coolie' labour can work under white supervision. In some colonies, what the white men want is the mineral wealth that lies under the land—usually under a quite small part of the total land surface. For example, in territories attached hitherto to the British Empire, the tin mines of Nigeria and Malaya, the iron and chrome mines of Sierra Leone, the copper mines of Northern Rhodesia, the gold and manganese mines of the Gold Coast, and the gold mines of New Guinea, are outstanding instances, though in some of these cases there are also plantation areas—for Malayan rubber, for example. In such mining areas what usually happens is that expensive plant brought in from the advanced countries is operated by very poorly paid native labour under the supervision of a small body of very highly paid white overseers technicians, and skilled workers; and that most of the value of the product goes to be spent abroad, to shareholders and directors in the investing countries, to retired white officials and workers living on pensions, to the families of serving white employees, and —last but not least—to the British Treasury, which has levied large taxes on 'white' incomes derived from such forms of colonial enterprise. In 1937 exports of copper ore from Northern Rhodesia were valued at £10,700,000, and constituted nearly 90 per cent. of total exports. Total imports were about half this, leaving a net drain of £5 millions out of this very poor country. The total public revenue of Northern Rhodesia was about £1 million: the total sum paid in wages to the native workers in the copper mines was about £250,000. As against this, over £5 millions was made in profits by the three leading copper-mining companies; and

nearly £3 millions of this was paid out in current dividends. The British Treasury got about £500,000 in taxes—apart from taxes levied in the colony itself. This is doubtless an extreme case; but in its general features it represents correctly the extraordinary nature of the economics of mining enterprise in colonial territories. Literally, the shareholders and white employees of the mining companies are having Africa dug up by native labour and carried away to enrich, not the African peoples, but themselves.

The Struggle for Oil

Oil production is, of course, a form of mining enterprise—and the very centre of the world struggle between rival groups for the right to exploit resources located in the less developed countries. The British and the Dutch have been foremost hitherto in the development of the oil resources of Asia; and one of the principal prizes of Japan in the World War was the capture of the oil wells of Burma and the Dutch Indies—which, incidentally, had for many years been supplying the oil needed for Japanese predatory warfare against China. Now Americans, fearing the exhaustion of their vast native oil resources, or at least their inability to supply the European market from American sources, are hotly in the race for oil and have obtained, in Saudi Arabia, vast concessions over what may prove to be the greatest oilfield in the world. Not content with this, the American companies have compelled the British-owned Anglo-Iranian Oil Company, in which the British Government holds shares, to sell to them a large part of the output of the South Persian oil wells, to be refined under American auspices and for American profit. British consent to this deal is no doubt due largely to the fact that it will bring in much-needed dollars; but it will also have the effect of binding British and American commercial interests closely together in the Mediterranean, and of making Palestine more than ever important to capitalism as the outlet for Middle Eastern oil to the Mediterranean Sea. To this question I shall come back: for the moment I am concerned only to show that oil plays a large part in the politics of colonial mining exploitation wherever it is found.

Plantation Agriculture

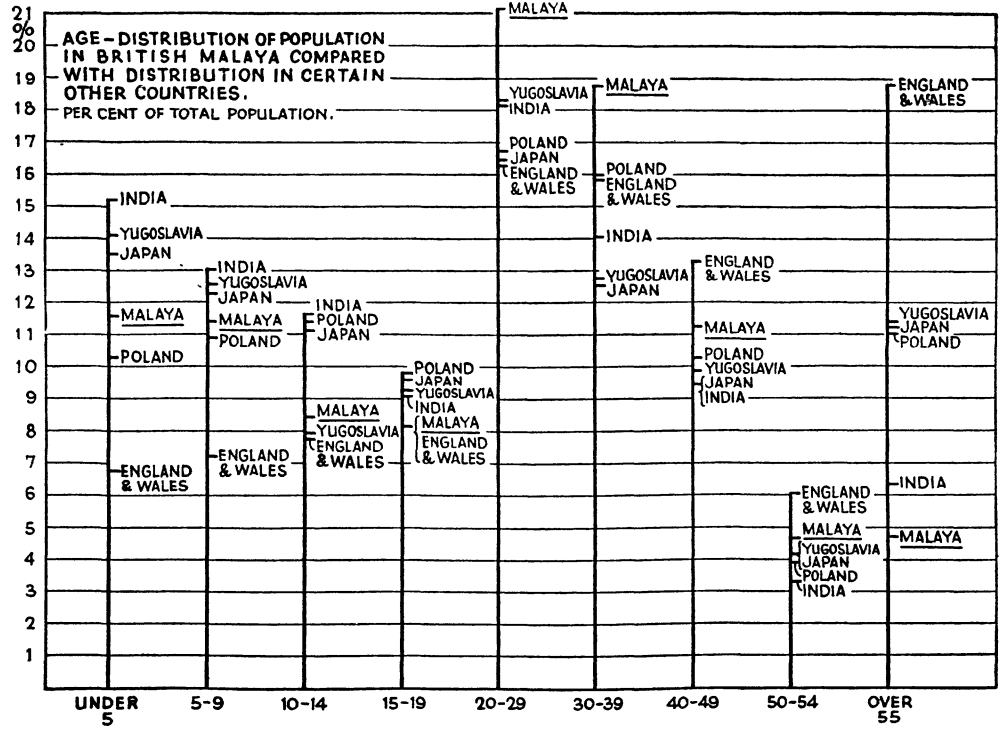
Plantation agriculture, such as the rubber planting of Malaya, reproduces many of the same features as mining—the exploitation of cheap labour and the removal of a large part of the proceeds for spending out of the country. But the extra-territorial character of the process of production usually takes a less extreme form, because there is in most cases some native or non-European

production side by side with that which is carried on in the foreign-owned plantations. The native producers, however, where they are competitors of the white planters or plantation companies, have usually to work under severe restrictions imposed to suit the interests of their white competitors. The successive rubber 'restriction schemes' have been operated in the interests of the foreign capital embarked in the plantations and have often borne hard on the native growers. Moreover, the plantation system requires either extensive immigration of labour or a regular supply of native wage-workers, who must be induced by hook or by crook to take service away from their native villages. One formidable engine for such recruitment is the hut or poll tax, which compels the native communities to find considerable sums in actual cash. As native production is largely subsistence production, carried on without the use of money, these sums cannot be found unless some of the villagers go where they can earn cash incomes. Tax policy can thus be used as a means of virtually compulsory recruitment of wage-labour, even where direct compulsion has been disallowed. In other cases, sheer poverty is enough to drive natives out of the over-populated reserves to seek the means of living by wage-labour; and in yet others there is wholesale importation of cheap labour from densely populated countries or colonies to areas where supplies cannot easily be found near at hand. The extreme example of this is Malaya, where less than one-fifth of the present population is native Malayan, whereas the Chinese comprise two-fifths of the total and the Indians about one-seventh. The Europeans are of course, here as elsewhere, an insignificant fraction of the whole.

AGE-DISTRIBUTION OF POPULATION IN BRITISH MALAYA COMPARED WITH DISTRIBUTION IN CERTAIN OTHER COUNTRIES

(Per cent. of total population. Most recent data available)

Age	*British Malaya*	*Japan*	*British India*	*Poland*	*Yugoslavia*	*England and Wales*
0–4	11·6	13·5	15·2	10·3	14·1	6·8
5–9	11·4	12·3	13·0	10·9	12·6	7·2
10–14	8·4	11·1	11·6	11·4	7·9	7·8
15–19	8·1	9·6	9·1	9·7	9·2	8·1
20–24	9·9	8·8	18·1	7·0	9·8	7·9
25–29	11·3	7·6		9·7	8·4	8·4
30–34	10·8	6·7	14·0	8·7	7·2	8·2
35–39	7·9	5·8		7·2	5·5	7·6
40–44	7·2	4·9	9·4	5·7	5·2	6·8
45–49	4·0	4·5		4·5	4·6	6·4
50–54	4·6	4·1	3·3	3·9	4·1	6·0
55–59	4·7	3·7	2·3	3·3	3·1	5·5
60–64		2·8	4·0	7·7	2·9	4·7
Over 65		4·7			5·3	8·5


AGE-DISTRIBUTION OF POPULATION IN BRITISH MALAYA COMPARED WITH DISTRIBUTION IN CERTAIN OTHER COUNTRIES.
PER CENT OF TOTAL POPULATION.
21
%
20
19
18
17
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
UNDER 5
5-9
10-14
15-19
20-29
30-39
40-49
50-54
OVER 55
INDIA
YUGOSLAVIA
JAPAN
MALAYA
POLAND
ENGLAND & WALES

European and Native Populations

Indeed, throughout the colonial empires of the European countries, Europeans form only a tiny element in the total population. In Kenya, regarded as a territory peculiarly suitable, because of its Highlands, for white settlement, the European population numbers under 30,000, or considerably less than one in a hundred. Asiatic settlers, numbering about 47,000, and Arabs, about 17,000, form further non-African elements in the total. In Northern Rhodesia, the 15,000 Europeans are just over 1 per cent. of the population; whereas in Tanganyika, Uganda, and the Gold Coast, the proportion of Europeans is under one in a thousand, or even much less. Sierra Leone had in 1939 at most 450 Europeans to about 2 million Africans. Nigeria had at most 2,000, as against 20 millions; the Gold Coast under 1,000, out of nearly 4 millions. In Asia, the situation differs only in that populations are much more mixed, and include high proportions of Indians and Chinese. Malaya as a whole has about 30,000 Europeans, out of about 5¼ million inhabitants. Ceylon has about 10,000, out of about the same total number. The 'colonies' are indeed far away from the conception of a 'colony' as a settlement of emigrants from a mother-country. Even Southern Rhodesia, where the white settlers have secured 'self-government'—which means in fact the right to govern the country without regard to native interests—has only 70,000 European inhabitants, out of a total population of nearly a million and a half—that is, less than 5 per cent.

The Land Question

I am not of course suggesting that it is necessarily a good thing for a colony to have a large white population. Far from it. The point I am making is that these tiny minorities of white settlers, or rather only a proportion of them, have monopolised an enormous proportion of the cultivable land area in those regions which are deemed, in theory, to be suitable for white settlement. In Southern Rhodesia, for example, 74,000 square miles have been set aside for white settlement, and only 67,000 square miles in all left available for Africans, including an 'unassigned area' of 19,000 square miles which is open to Africans only under conditions of individual ownership on the European model. In Kenya, out of 56 million acres of potentially usable land, 10,688,000 have been assigned for European settlers—at present numbering under 30,000—whereas the 3½ million natives are left with an assignment of 30,800,000 acres. The acreage actually cultivated by Europeans is under a tenth of what has been

assigned, and before the war it was much less—hardly more than a twentieth. In Northern Rhodesia there are vast areas of unoccupied Crown land; but the native reserves, including Barotseland, which is reserved by treaty as a whole, cover only 70,000,000 acres out of a total acreage of 185,000,000. Nor is this the whole of the story; for in general the areas allotted to Europeans are the best, and much of the land assigned to the natives is either poor soil, lacking in water, or pest-ridden; and usually nothing is done to improve its quality, or even to prevent further deterioration. In many parts of Africa reserved for native occupation, the tsetse fly is still being allowed to spread without check.

The Gold Coast

The position is of course different in areas which for climatic reasons are not regarded as potential fields for European settlement or for the development of 'plantation economy.' In such areas, the natives are left in possession of the land, except where Europeans want it for the exploitation of minerals; and native cultivation is encouraged, especially for export crops. The African colony in which the native population has much the highest standard of living is the Gold Coast, with its great dependence on cocoa. The cultivation of cocoa has manifestly raised native standards of living in the Gold Coast very greatly, and has provided the foundation for substantial social as well as economic progress. The cultivation of the crop on small native holdings, as against European plantations, means that a much higher proportion of the income created is retained in the colony, and accrues to the native inhabitants, than where mines or rubber or tea plantations form the basis of the economy. This remains true even if the native cultivators have to sell their crops under disadvantageous conditions to foreign merchant concerns, such as the United Africa Company. Exploitation by a merchant company is greatly preferable to exploitation by foreign mining concerns or by European planters. But the relative prosperity of the Gold Coast carries with it very considerable disadvantages, of which the leaders of native opinion are well aware. The dependence on a single export crop, which has to be sold in the world market, exposes the Gold Coast producers to the extreme vagaries of international prices for primary commodities, and this means that the relative stability of native conditions is replaced by enormous fluctuations in income arising from causes wholly outside the natives' control and unconnected with the vagaries of

EUROPEAN, NATIVE, AND ASIATIC POPULATIONS OF BRITISH COLONIES IN AFRICA

	Total population	*White population*	*Asiatic population*
Southern Rhodesia (1941)	1,448,000	69,000	6,500
Northern Rhodesia (1940)	1,382,000	15,188	—
Nyasaland (1942)	2,119,000	1,738	2,039
Bechuanaland (1936)	266,000	1,899	—
Basutoland (1936)	562,000	1,434	—
Swaziland (1936)	157,000	2,741	—
Tanganyika (1941)	5,232,000	6,474	33,800
Kenya (1942)	3,692,000	29,000	47,000
Uganda (1942)	3,898,000	2,647	26,972
Zanzibar (1931)	250,000	278	14,000
Nigeria (1942)	20,589,000	(*c.* 2,000)	—
Gold Coast and Togoland (1942)	3,963,000	(*c.* 1,000)	(*c.* 2,000)
Gambia (1936)	191,000	(*c.* 350)	—
Sierra Leone (1936)	1,920,000	420	—

AFRICAN PRODUCTION OF CERTAIN COMMODITIES COMPARED WITH WORLD PRODUCTION

=Exports only.

	World	*All Africa*	
Coffee, 000 quintals, 1939–40	20,000	1,600	Kenya 165, Tanganyika 169.
Cocoa, 000 q., 1938–9	7,790	5,300	Gold Coast 2,750, Nigeria 1,175.
Cane sugar, 000 q., 1939–40	177,400	12,000	Fiji 1,160, Mauritius 2,295, B.W. Indies 2,276, Trinidad 937, British Guiana 1,703.
Cotton seed, 000 q., 1939–40	127,100	11,300	Uganda 1,250, Sudan 956.
Ground nuts, 000 q., 1939–40	61,700	13,000	Gambia 506, Nigeria 2,140.
Palm oil, 000 q., 1939	5,300	2,400	Nigeria 1,281, Malaya 607.
Palm kernels, 000 q., 1939	3,270	2,800	Nigeria 1,371, Sierra Leone 319.
Cotton, 000 q., 1939–40	62,300	5,900	Uganda 551 (E.), Sudan 531, Tanganyika 127, Nigeria 86.
Rubber, 000 metric tons, 1939	1,021	16	Malaya 383, Ceylon 62, B. Borneo 36, Nigeria 3.
Coal, million metric tons, 1938	1,232	18	Nigeria 0·4, Malaya 0·5.
Iron ore, m.m.t., 1938	74	4	Sierra Leone 0·5, Malaya 1.
Copper ore, 000 m.t., 1938	2,026	400	N. Rhodesia 255.
Tin ore, 000 m.t., 1938	163	21	Nigeria 9, Malaya 44
Tungsten ore, 000 m.t., 1938	21·5	0·4	Malaya 0·6.
Gold, 000 kilos, 1939	1,200	482	Gold Coast 24, Kenya 2·4, Nigeria 0·8, Uganda 0·5, Sierra Leone 1·0, Tanganyika 4·0, British Guiana 1·2, Malaya 1·3, Fiji 3·4, New Guinea 7·7.

nature. Moreover, the race to realise cash by the sale of the export crop leads to misuse of the soil and exhaustion of its fertility, with a consequent destruction of the real capital on which the prosperity of the people depends. Finally, the new economy of the Gold Coast, which has practically abandoned other forms of agriculture in order to get rich on cocoa, is highly precarious. If for any reason cocoa production were to become uneconomic, either through a change in European demand or on account of a development of competitive production elsewhere, the entire basis of agriculture in the Gold Coast would be destroyed, and sheer misery for the people would ensue.

It is generally recognised as undesirable for a country to depend exclusively or even largely on the sale of a single product, as the Gold Coast depends on cocoa and—much more—Northern Rhodesia on copper. This is most undesirable of all when the product in question is liable to very wide fluctuations in demand or price. In the Gold Coast, the value of cocoa exports shrank from £11,700,000 in 1927 to £4,000,000 in 1934, for very nearly the same quantity of produce. During the period of high prices, native producers borrowed extensively in order to increase the scale of cultivation: this left them with heavy interest burdens to meet—usually at extortionate rates charged by moneylenders—when prices fell catastrophically. A little progress has been made with Co-operative credit supply and Co-operative marketing; but Co-operation still covers only a tiny part of the field. Yet, even in face of these handicaps, the Gold Coast native cultivator is well off in comparison with those of other colonies; and the general situation of the Gold Coast population is immensely preferable, economically as well as politically, to that of colonies more largely dominated by white mining or planting companies, or by a handful of white settlers dependent on the exploitation of native labour for their precarious hold on their superior standards of living.

To be sure, the Gold Coast has its mining concerns, as well as its cocoa. It is a considerable producer of gold and of manganese, and also of diamonds. In 1941, under the influence of war conditions, gold exports were valued at £6,850,000, as against only £4,000,000 for cocoa. Manganese accounted for another £1 million, and diamonds for £629,000, whereas the older export trade in palm oil, palm kernels and kola nuts had practically disappeared. The war situation, however, was abnormal, owing to the restriction on cocoa exports and the high premium on gold. In 1936, which gives a fairer balance, cocoa exports were valued at £7,660,000 and gold exports at just over £3 millions.

Malaya

In such a country as Malaya the situation has been radically different. There rubber entirely dominates the agricultural structure. In 1936 rubber exports were valued at over £35 millions, tin coming next, at £16,500,000. Here, as we have seen, both mines and plantations are worked mainly by imported labour, as the Malayans do not take kindly to wage-employment and it has been easy to bring in Indians and Chinese. The Chinese immigrants also largely dominate the internal trade of Malaya, and are absorbing a growing proportion of the national wealth. The developed areas of Malaya are, indeed, to-day neither native Malayan nor predominantly white men's areas: they are—or were prior to the Japanese occupation—to a rapidly increasing extent Chinese. Here are the figures showing the distribution of population in the various parts as between the four main groups; but it should be noted that those who are here described as 'Malayans' include many of kindred race who have come into the country from other areas, such as the Dutch Indies.

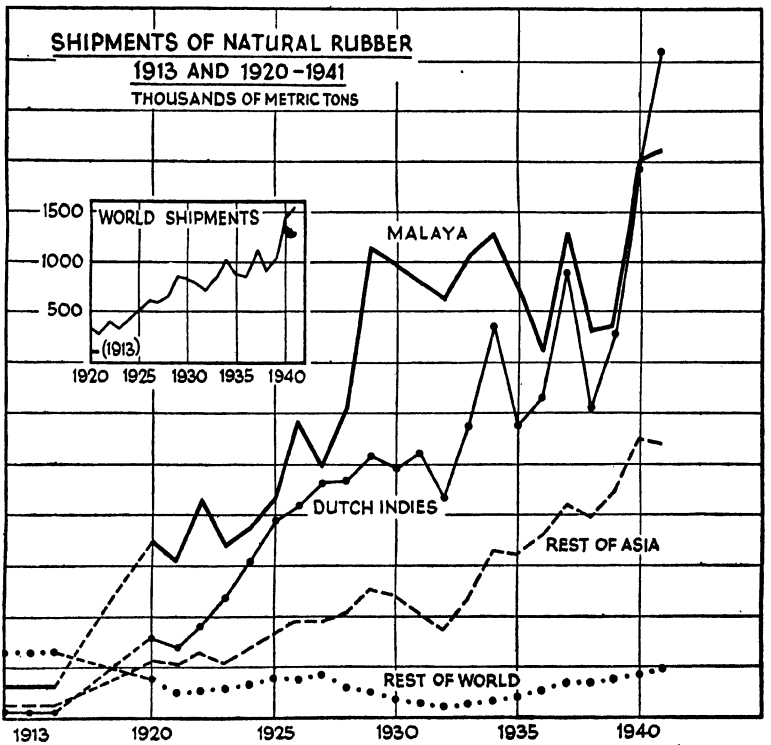
POPULATION OF BRITISH MALAYA

(*Thousands*)

	Europeans	*Malayans*	*Chinese*	*Indians*	*Total*
Straits Settlements (1941) .	18	342	927	149	1,436
Federated Malay States (1941) .	11	723	990	466	2,212
Unfederated Malay States (1940)	1	983	484	149	1,845
Totals	30	2,048	2,401	764	5,593

There are obviously peculiar difficulties in considering the economic future of a country which has been filled up in this way, not by white settlers, but by people of other races either brought in to labour for the whites or attracted by the economic developments initiated with white men's capital and largely under white control. The Indians in Malaya have included a large element of migratory workers, who have returned in due course to India and have been replaced by others; but the Chinese have been largely permanent settlers, and already outnumber the native population and the immigrants of kindred stock combined. We shall have later to consider the political aspects of this tangle of races—the meaning of self-determination or independence in such a country, and the methods of combining the discordant elements into anything that can be called a community; but we are concerned for the

moment only with economics—which present difficulties enough. The more Malaya is developed by European capital and Chinese enterprise, the less is it the Malayans' country; and it is quite clear that the Malayans would not in fact develop it if the other elements were driven out, or European or Chinese or Indian capitalists be able to use its great economic resources save with the aid of Chinese or Indian labour.



The Outlook for Rubber

To add to the difficulty of planning for the future, there is the uncertainty of the outlook for rubber. In 1939 the Dutch East Indies produced almost as much rubber as Malaya, and the two areas between them accounted for three-quarters of the world output. There had, however, been a very rapid growth of output, from small beginnings, in Indo-China, Thailand and Borneo; and there was clearly no reason why, in the absence of concerted

restriction, plantation in these areas should not be developed much further. Between 1929 and 1939 shipments from Malaya fell by over 80,000 metric tons, whereas shipments from the Dutch Indies rose by 120,000, and from Indo-China, Thailand and Borneo by 110,000. In 1929 these three areas produced less than 4 per cent. of the world output: by 1939 they were producing 14 per cent. As against this, the production of 'wild' rubber in Africa and Latin America, which was more than half the world total of 1913, fell into insignificance in the 1920's and underwent only a small revival in the 1930's.

Even if there were no question of competition from synthetic rubber, the outlook for Malaya would be uncertain in face of the growing activity in other areas. But, of course, there has been a very great extension of synthetic production during the war, especially in the United States and Germany, as well as in the Soviet Union; and considerable progress has been made in improving the quality, so as to produce substitutes which stand up better to hard wear and are adaptable to a wider variety of uses. Hitherto, synthetic rubber has been considerably more costly than natural rubber; and the prospects of the areas which grow natural rubber depend mainly on future costs in relation to quality, but will also be affected by the policy of countries which have developed synthetic rubber industries in protecting them against imports of natural rubber. The United States, with its huge consumption, is here the key factor. If the natural rubber producers and their Governments attempt, as they did under the inter-war restriction schemes, to hold up prices by limiting supplies, the result will be a determination on the part of the United States to maintain its synthetic rubber industry at a high level; and, if that happens, Malaya will be the area most directly and immediately affected. Were the Malayan industry to decline, there would be a sharp fall in the population of Malaya, with many fewer Indians and Chinese able to find work in the country.

Tin

If rubber cultivation were seriously to decline in Malaya, the country's economic future would depend upon tin, in default of a quite new orientation of its economy. In 1939 Malaya was the world's leading producer of tin ore, with an output of 54,000 metric tons out of a world total of 180,000. In 1940, under stress of war demand, output rose to 87,000 tons, out of a world total of 240,000. Tin, like rubber, is a commodity for which demand fluctuates very widely in periods of prosperity and depression; and price changes have hitherto been very great. Malaya's principal

SHIPMENTS OF NATURAL RUBBER FROM PRODUCING COUNTRIES, 1913 AND 1920–41

(*Thousands of Metric tons*)

	Malaya	*Dutch Indies*	*Ceylon*	*India and Burma*	*Borneo*	*Thai-land*	*Indo-China*	*Africa*	*America*	*Total*
1913	33	5	11	1	1	—	—	18	45	114
1920	174	79	40	6	6	—	3	6	33	345
1921	151	68	39	5	5	—	4	4	22	298
1922	216	89	48	5	7	—	4	3	24	396
1923	168	118	35	6	9	—	5	4	25	370
1924	186	151	38	8	11	3	6	5	26	434
1925	214	192	47	10	14	4	6	7	32	526
1926	291	208	60	10	16	4	7	7	29	632
1927	246	233	56	11	18	4	8	6	35	617
1928	304	233	59	11	18	5	9	4	24	667
1929	464	259	81	12	19	5	9	4	23	876
1930	449	245	77	11	18	5	10	3	15	833
1931	429	261	63	8	18	5	12	2	12	810
1932	412	214	50	7	13	3	14	2	7	722
1933	453	287	65	8	19	7	18	2	10	867
1934	475	385	80	18	29	18	20	4	9	1,038
1935	424	287	55	19	29	29	29	6	13	891
1936	359	315	50	21	30	35	41	9	16	876
1937	477	439	72	17	40	36	44	12	20	1,157
1938	378	303	50	16	28	42	60	12	19	908
1939	383	379	62	16	36	42	66	16	19	1,019
1940	549	545	90	22	54	45	65	17	22	1,409
1941	559	660	93	13[1]	49[1]	40	62	19	26	1,521

Excluding reclaimed as well as synthetic rubber. The output of reclaimed rubber in the U.S.A. was 132,000 metric tons in 1931, 213,000 in 1940, and about 250,000 in 1941. The Soviet Union produced about 50,000 metric tons of synthetic rubber in 1939, and Germany about 20,000 metric tons. The U.S.A. produced 12,000 metric tons in 1941.

rivals are the Dutch Indies and Bolivia; but up to the war the Malayan mines had held their own, though their output fluctuated even more widely than that of other areas. In this industry, as in rubber, the labour is mainly imported, and the mines would be unable to carry on without the aid of labour brought in from abroad. Obviously, if the leading countries of the world follow policies of full employment, there will be a brisk demand for both tin and rubber, provided that they are offered at reasonable prices, unless the United States decides to carry the protection of the synthetic rubber industry to quite extraordinary lengths. But the position of Malaya in the world market, even if the demand for its main products is high, depends on the political future of the country. If its population of imported Chinese and Indian workers were to be withdrawn, it seems unlikely that the

[1] Ten months only.

Malayans themselves, with or without European exploitation, would be prepared to man the mines and plantations. A withdrawal of European capitalists would probably mean in practice their replacement, even more than has happened already, by Chinese, who have already come to occupy a leading position in developing the country's resources. The whole question is difficult to discuss in isolation: it is involved with the future of the Dutch Indies, Burma, Thailand, and Indo-China, and can best be considered when we come to consider the politico-economic issues of the entire region lying between India, China, and the Australian continent.

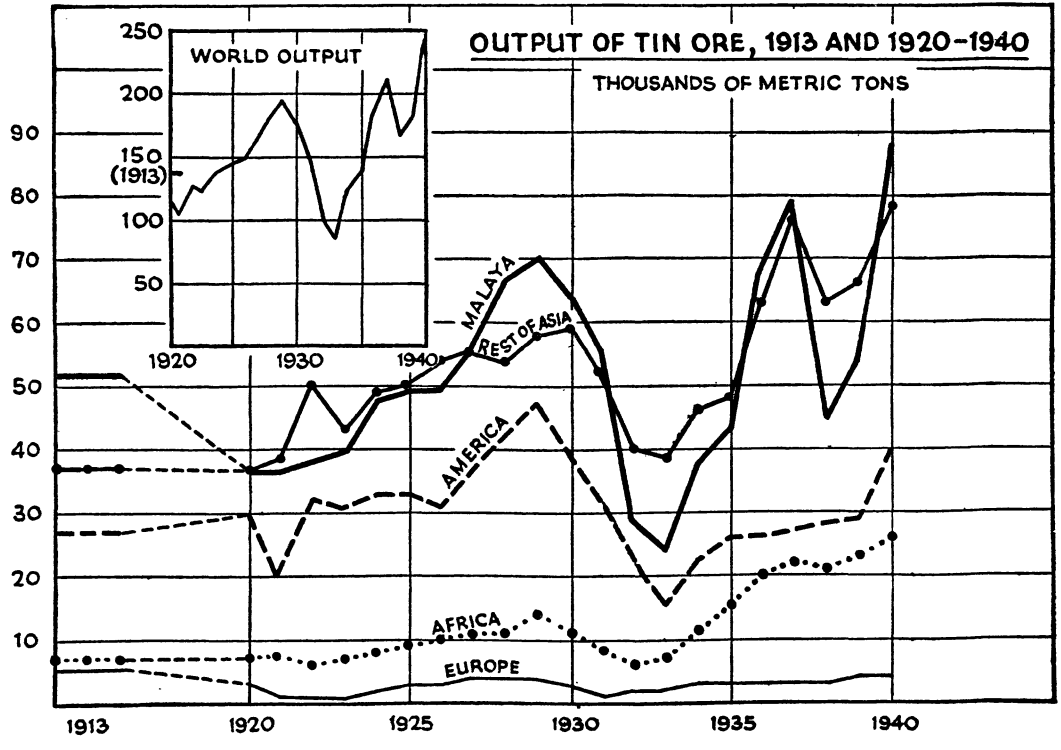
So far, I have been merely describing, by way of a few examples, the main economic problems which arise in connection with the development of colonial areas. We must now turn to the general question of colonial economic policy in the future. Let us try, first of all, to set out in order the main needs, as far as they can be stated in quite general terms, and then come to a few more particular suggestions.

Colonial Standards of Living and Production

Standards of living in most colonial areas are quite deplorably low, and there is a great prevalence of diseases due mainly to malnutrition, as well as of infections derived from contact with white men, against which the native peoples have no protection. Tuberculosis and venereal disease, as well as the more obvious deficiency diseases, flourish appallingly. So does sleepy sickness, in the growing areas infested by the tsetse fly. These conditions require drastic remedies, including (*a*) many more doctors and trained assistants, (*b*) greatly enlarged public health and sanitary services, with large funds for carrying on systematic warfare against pests and for improved water-supply and sanitation, and (*c*) better nutrition, which implies a vast improvement in agricultural standards and in the marketing of foodstuffs, which in turn implies better transport.

The raising of agricultural standards involves not merely education in the arts of agriculture, but also the means of applying the knowledge as it is acquired. This means that the peasant must have his land protected against further denudation and erosion, must be relieved of debt and given a chance of acquiring better implements, singly or in common with his neighbours, and must be helped to market his produce under better conditions.

The protection of the land involves much greater attention by the State to the conservation of forest areas, in order both to check denudation and erosion and to drive back insect pests. It involves


OUTPUT OF TIN ORE, 1913 AND 1920–1940
THOUSANDS OF METRIC TONS
WORLD OUTPUT
250
200
150
(1913)
100
50
1920
1930
1940
90
80
70
60
50
40
30
20
10
MALAYA
REST OF ASIA
AMERICA
AFRICA
EUROPE
1913
1920
1925
1930
1935
1940

OUTPUT OF TIN ORE, 1913 AND 1920–40

(*Thousands of metric tons*)

	Malaya	*Dutch Indies*	*Rest of Asia*	*Africa*	*America*	*Europe*	*World*
1913	52	21	16	7	27	6	137
1920	37	16	21	7	30	3	120
1921	37	19	19	7	30	1	106
1922	38	27	23	6	32	1	130
1923	40	26	17	7	31	1	126
1924	48	32	17	8	33	2	143
1925	49	31	19	9	33	3	147
1926	49	33	21	10	31	3	150
1927	55	34	21	11	37	4	164
1928	66	35	19	11	42	4	181
1929	70	36	22	14	47	4	195
1930	65	35	24	11	39	3	179
1931	56	28	24	8	32	1	151
1932	29	17	23	6	22	2	100
1933	24	13	25	7	15	2	*89
1934	38	20	26	11	23	3	124
1935	43	21	27	15	26	3	139
1936	68	31	32	20	26	3	183
1937	79	40	36	22	27	3	211
1938	44	28	35	21	28	3	163
1939	54	28	38	23	29	4	180
1940	87	44	34	26	40	4	240
1941	76[1]	50[1]	—	—	44	—	

also some control over cultivation of land, so as to prevent the exhaustion of soil fertility; but such control can be applied only where the supplies of good land are adequate to the needs of the natives. The native cultivators are not destroying their own land voluntarily, or of their own folly. The destruction occurs where the traditional methods of cultivation are made impossible because there is no fresh land to which the cultivator can move, or because he is compelled by the immediate pressure of debt to produce the largest possible cash crops, regardless of the future.

The Future of Mining in Colonial Areas

The conditions of mining in native territories raise quite special problems. In many cases vast areas have been alienated to foreign mining companies in return for ludicrously small payments to native chiefs, who have been induced to part with what belonged in essence not to them but to their tribes. The powers thus acquired by the foreign mining concerns are open to so much abuse that nothing can justify their continuance. The profits of mining go mainly to enrich not the natives but the foreign owners

[1] Ten months only.

and the white managers and officials who act for them on the spot. In many cases even the labour is largely imported, and the wages paid have been largely drained away out of the country. Where backward countries possess important mineral resources, development ought not to be prevented, but it ought to be so organised as to deal fairly by the natives and not to drain the country's resources away without effective payment. This means that all mining in colonial areas ought to be carried on, not for private profit, but by public corporations or similar bodies subject to government scrutiny and control, using capital borrowed at low rates of interest (or even given or loaned free of interest). It means further that the recruitment of labour for the mines and the conditions of employment in them ought to be made subject to stringent government regulation, and that steps ought to be taken wherever possible to train natives to undertake skilled work and to occupy managerial and supervisory posts, so as to get rid as soon as may be of the system whereby the native workers are in effect hardly better than slaves or serfs exploited under the regimentation of white overseers.

In this connection great importance attaches to the British Government's statement on Colonial Mining Policy issued in November, 1946. This statement recommended that in all future sale or alienation of public lands mineral rights should be reserved by the Government, and that Colonial Governments should be prepared, where necessary, themselves to undertake mining operations. It further recommended that the re-acquisition of mineral rights already alienated should be considered, but did not make any comprehensive recommendation on this point, or deal with the position of mining on lands in private ownership under titles not derived from the alienation of public lands.

The Future of the Plantations

Plantation economy stands in need of similar regulation. The white planter or planting company exploiting colonial lands for maximum profit is not a pleasant specimen of the genus 'economic man,' whether he finds his labour within the colony or has to bring it in from other backward areas. It would be greatly preferable for such plantations to be superseded by native holdings, where necessary on a communal or co-operative basis, and for imported wage-labour to be dispensed with altogether.' Until this becomes practicable, the bringing in of labour from outside and the recruitment of labour from native villages inside the colony should both be made subject to stringent control. Poll taxes, hut

taxes, and similar imposts which in effect involve compulsory recruitment should be done away with: pressure upon the natives to accept wage-labour by restricting the good land available for native cultivation should be removed. In Malaya, and perhaps in some other areas where the problem is at its worst, the plantations should be taken over directly by the Government and worked, like the mines, by public corporations, subject to full scrutiny and control. No doubt, special difficulties arise where, as in Johore, for example, the plantation economy has been allowed to grow up in what is nominally an autonomous native State, not under direct British rule. There is, however, no valid reason why a progressive Government in Great Britain, or in any other imperial country, should respect the claims of native rulers to powers which have in many cases been deliberately thrust upon their predecessors by the imperial countries in order to make them instruments of 'indirect rule.' It would be intolerable if democratic Governments found themselves in the position of upholding the claims of native rulers to act against their peoples' welfare—above all if the support given to the native rulers were in fact a cloak for defending the interests of white planters and concessionaires. Imperialists have shown in the past no hesitation in disposing of native rulers who have been a nuisance to them; and progressive Governments in the countries which have built up empires on a questionable basis cannot afford to allow the 'rights' of native rulers to stand in the way of drastic reforms desired by the leaders of opinion among the native peoples.

Capital Development

Capital will have to be made available for colonial development on conditions very different from those which have held good hitherto. This problem has two main aspects—that of capital investment in mining, plantations, and other forms of what has been hitherto private enterprise, and capital investment through the budget under the auspices of a colonial Government. The two may of course run together where a Government directly undertakes extended economic functions: but it is simplest, for the moment, to consider them apart. Take first the traditional spheres of government economic activity—transport; other public utilities, including sanitation and water supply; forest conservation and development; land reclamation, drainage and irrigation, and the war on insect pests; taxation, including customs policy; monetary regulation; and the control of marketing, including the encouragement of Co-operative enterprise.

The Transport Problem

Colonial Governments in the past have spent relatively much too much on railways, which have involved large interest burdens and have often failed to pay their way, and much too little on roads. In some cases they have also spent much too much on harbours designed primarily to assist white traders and mining or plantation concerns. It is true that much of the expenditure on railways was before the motor age, and that railways then seemed the only practicable way of opening up the interior. But the concentration on railways outlasted the railway age; and road-making remains terribly behindhand, though with the advent of the motor-car and the lorry—to say nothing of the cheap bicycle—the balance of advantage has shifted greatly in favour of road-building, except where it is a question of moving large quantities of minerals from the inland mines; and in such cases the cost of the railway ought to be debited mainly to the mining concerns. Roads have the further great advantage over railways that they do not involve heavy importation of expensive capital goods from abroad. They can be built mainly by local labour, under skilled supervision, and with native materials. The making of them therefore involves much less in the way of foreign loans, and of subsequent burdens for interest and sinking fund. This does not mean that roads can be built without cost; but most of the money spent on them will circulate locally, within the colony, creating a demand for other local goods. Provision can therefore be made by internal loans, without calling upon foreign money markets for more than a small part of what is required. In effect, such expenditure can be largely self-financing, in the same way as money can be created in more advanced countries to finance policies of 'full employment.' Extensive road-building projects ought to be carried out during the next few years throughout the colonial empire, and there should be no question of holding up such projects—as they are said in some cases to have been held up in the past—for fear of their adverse effect on railway revenues. It would be a thoroughly sound stroke to make the colonies a present of their railways free of all overseas interest charges, or in other words for the home countries to take over the interest burdens involved in existing railway systems in the less advanced colonial areas.

Road development should mean the building not merely of a few trunk roads serving areas of white settlement or trade, but also of branch roads opening up the interior and making it possible for the native populations from any part of the colony to get their produce more easily to market. This would have an immense

effect on the economic possibilities of native agriculture. It would enable the peasant producers to diversify their crops and would offer them a great inducement to adopt improved agricultural methods. The road, even more than the railway, can be a great civilising power, and with much less compensatory disadvantage, because it is less catastrophic in its influence and can spread its benefits more gently over much larger areas.

Land Improvement

With road-building must go land-improvement—the restoration of denuded and devastated areas, the irrigation of lands short of water, the drainage of bogged land, the preservation and scientific exploitation of forests, the war against the tsetse fly and other tropical pests. The breeds of cattle must be improved, as they cannot be in areas where these pests prevail. If these tasks are to be undertaken on the required scale, they must be tackled cheaply. Large staffs of farm and forest advisers, supervisors and foremen and engineers, will be needed; and it will be impossible to afford to pay more than a few of them at the rates which Europeans demand as compensation for residing in backward and in many cases unhealthy countries. Accordingly, native Africans must be trained to occupy most of the superior posts, partly by education abroad but largely by the establishment of institutions for higher technical training in the colonies themselves. It is a misfortune that in the past native education, partly because it was started largely under missionary auspices and partly as reflecting a defect in the structure of British education itself, has stressed the cultural far beyond the technical, instead of putting a balanced emphasis on both. Lawyers and clerks have been produced in relatively large numbers, but not engineers or even skilled craftsmen, with the consequence that engineering work has been made unduly costly by the need for employing large white supervisory staffs at very high rates of pay. The rates may not have been too high—for smaller payments would probably have failed to secure the supply—but they have been burdensome, and have seriously held back development over a large part of the colonial field.

Co-operation in Colonial Areas

Co-operation, in varying forms appropriate to the local conditions, should receive everywhere the fullest encouragement. Its forms will range from the village credit society, designed to rescue the cultivator from the grip of the moneylender and from the necessity of selling his crop prematurely under unfavourable market conditions, to the village store for purchases of consumers'

goods. Between these extremes lies the entire range of types dealing with Co-operative purchase of farm requisites, from seeds and fertilisers to agricultural machinery, with Co-operative use of machines, such as tractors, and with Co-operative marketing of produce, ither through specialised agencies handling only a single product or through more general societies trading in anything their members produce. In suitable cases, there will be room as well for Co-operative Societies for common cultivation, on the model of the Soviet collective farms.

In most colonies, the Government expresses a general sympathy for Co-operation, at any rate in agriculture; and in a very few cases special officials have been appointed to supervise and encourage the development of Co-operative methods. There are, however, very real difficulties in the way of a widespread adoption of these methods. If they are made too obviously part of the government machinery and are subjected to strict government control, hostility is aroused, or at any rate enthusiasm is not evoked; whereas, if they are left to grow of themselves, with the Government merely permitting them, progress is apt to be very slow, and to be limited to small sections of the people, not including those who are most in need of help. The Co-operative Societies may then easily come to consist only of the better-off cultivators, and may close their ranks against the poorer, who can be helped only at greater risk and respond less readily to the business appeal of Co-operation. Again, if the Government is generous in placing credit at the disposal of the Co-operators, there may be less caution and frugality in the management of the societies than if they have to struggle to make their limited resources go as far as possible. There is, no doubt, a middle way; but it is not easy to find. Nor is it a simple matter to discover what forms of Co-operative enterprise are likely best to meet the needs of each particular backward community.

Forms of Co-operative Organisation

Credit is obviously a matter of vital importance. It involves the existence of some sort of bank which is prepared to make advances to the local Co-operators, usually on the strength of their joint guarantee. This can be done by an ordinary bank; but it is usually preferable for the Government to set up a special institution for advancing credit on easy terms to small local Co-operative Credit Societies based on mutual guarantees, and for the actual grants of credit to be accompanied by skilled advice about the use to be made of the money. This advice can best be given, wherever possible, not by the Government, but by the agents of a central Co-operative

body to which the Government makes cheap loans for re-lending to the local credit societies, which will in turn pass them on to their members. But it may be necessary, in the earlier stages, for the Government itself to act as adviser and to administer directly the central agency, until such time as the movement has struck firm enough roots to be able to create and run democratically a central agency of its own.

It is a doubtful point how far the supply of credit ought to be organised locally through separate societies, existing side by side with local Co-operative bodies of other types. There is much to be said, in many backward areas, for the all-purposes local society, which can act as a credit agency, a purchasing agency for farm requisites, a marketing agency for local produce, and a consumers' store for mutual trading in ordinary consumers' supplies. Out of such a general society separate agencies for the various purposes may become differentiated at a later stage; or it may even be desirable, right at the start, to set up more than one agency in a particular case—for example, where some one product of vital importance is covered by a special marketing scheme under government auspices and the Co-operators need a special agency for participation in the scheme. Gold Coast cocoa might well be one example of such a need. What, however, is fairly plain is that it is not likely to be practicable in backward areas to organise at the outset a number of parallel Co-operative Societies each designed to serve a particular purpose, and that the spirit of Co-operation is much more likely to be quickly diffused, and a democratic central organisation built up, if a beginning is made with 'all purposes' local societies to which practically the whole village can belong. There is much to be learnt in these fields from the actual experience of Co-operation in Ireland in the early days of Sir Horace Plunkett's Irish Agricultural Organisation Society, as well as from the more recent spread of agricultural Co-operation in many parts of Eastern and Southern Europe and in India.

Marketing societies occupy a position of special importance wherever the native cultivators are producing largely for export; for in default of Co-operative marketing they are practically bound to fall under the almost complete domination of some foreign marketing business, such as the United Africa Company. Wherever export of a single crop, or of two or three main agricultural products, plays a large part in a colony's economic life, there ought to be government-controlled Marketing Boards, carefully safeguarded against the influence of the foreign merchant agencies and, wherever white planters are competing with native

producers, against any preference, open or concealed, given to the white interests. In all such schemes a place should be left for the active participation of native Co-operative agencies, which may, indeed, in due course grow strong enough to take the whole business of export marketing into their own hands. Similarly, purchasing societies, with a central agency able to buy freely in the world market, could be used to break the monopoly of foreign importing firms, and should receive the fullest encouragement in doing so from the colonial Governments.

Co-operative Cultivation

How far it is likely to be possible to go in the direction of actual Co-operative cultivation depends mainly on the future of 'plantation economy' in the tropical areas. Where the plantations have been run with native labour drawn from within the colony in which they are situated, it should be possible, as native education and self-government advance, for them to be taken over by native Co-operative Societies, aided by cheap loans, and converted into collective farms. The position is much more awkward where, as in Malaya, the foreign-owned plantations have been run mainly with imported labour of different race and language. The imported Indian labour could no doubt be fairly easily dispensed with by stoppage of recruitment; but the Chinese labour is of a different order because the Chinese mostly came, not as temporary settlers meaning to return home after a few years, but as permanent colonists. Indeed, as we have seen, in Malaya they actually outnumber the Malayan population, and there is a considerable class of Chinese plantation owners as well as of labourers, and a tendency for the Chinese to oust the British as the leaders of Malayan business enterprise. Here the Chinese could no doubt convert the plantations on which they work into Chinese Co-operative Societies; but this would leave unsolved the problem of their future relation to the Malayans. The Chinese, however, are much too numerous to be driven out; and it seems that somehow they and the Malayans will have to find a basis on which they can agree to settle down and run the country and its economy in a sort of partnership. The search for such a basis has been at the back of the negotiations which followed, in 1946–7, upon the extraordinarily ill-advised attempt of the Colonial Office to force its own plan of Malayan Union upon the country without any attempt to secure the approval of the peoples concerned. I do not underestimate the difficulties, which are of the same order as those which exist in Palestine between Jews and

Arabs; but I do not wish to discuss them further here, as they would take me too far away from the limited scope of this chapter.

Mining and Processing of Native Products

As for mining enterprise in the colonies, it ought plainly to be organised as a public concern. The foreign mining companies ought to be bought out, and the colonial Governments, acting through Public Corporations subject to their control, ought to become responsible for the entire business of exploiting the mineral wealth and of ensuring that the native peoples get a square deal. It remains to consider the separate question of the development of industries other than mining. This has two aspects —the processing of local materials for export, and the development of manufactures designed to meet some of the demands, actual and potential, of the home consumers. On the first point, the public acquisition of the mines and the establishment of public control over the marketing of export crops should carry with them measures to develop processing on the spot, in order to give the colonies more valuable exports to exchange for necessary imports and to enable them to sell their products better graded and packed, and thus to be in a position to offer premiums to local producers for the supply of goods complying with satisfactory standards. This would react most favourably on native standards of cultivation and of preparation of goods for the market. It would, no doubt, be strongly opposed by foreign merchant interests; but so will any measure designed to give the natives greater control over their own economic affairs.

Development of Native Industries

The development of native industries for the manufacture of consumers' goods raises a different set of problems. In special cases, it may be desirable to allow a foreign firm to come into the colony and set up a factory for making some kind of product that demands large-scale manufacture with very expensive machinery and highly skilled scientific supervision. But it is in general much more important to encourage native industries, even where their scale is bound to be relatively small and their methods are likely at the outset to be relatively primitive. The most economic units and methods of production are not the same for an advanced society in which capital is plentiful and labour relatively expensive and for a backward society which has plenty of labour but not nearly enough command of capital to go round. What has been said in previous chapters about the conditions of successful industrialisation in backward Europe and in India and China

applies here with even greater force. The colonial peoples will need for some time to come to reserve the proceeds of their export trade as far as possible for paying for imports of capital goods. They can do this only to the extent to which they can build up industries of their own for meeting more of their consumers' needs. There is no reason why they should not make at home such things as soap, processed foodstuffs, cheap textiles, boots and other clothing, furniture and woodwork generally, leather goods, pottery, and a host of other things which can be manufactured economically on a fairly small scale. This could be done partly by a revival of traditional crafts, which have in many cases suffered under the impact of foreign influences; but it should come mainly in the form of small factory and workshop production, based on simple modern machinery and on the use of cheap electric power.

Under the existing conditions in the colonies, such a growth of industries implies a development of native capitalism; for it would be impracticable to propose that more than a few of the factories could as yet be co-operatively organised. It would therefore be necessary to insist from the outset on strict regulation of the conditions of employment. Without this, there would grow up, as has happened in both China and India as well as in colonial mining enterprises, a terrible exploitation of native wage-labour far beyond what occurred in Great Britain and other countries under the impact of the Industrial Revolution. Native factory labour is bound to be cheap labour, by the standards of advanced countries. The wages are bound to be low, if only because at the start the efficiency of production is bound to be low. But that is no reason why the *conditions* of labour should be bad; indeed, the better the conditions, the more rapidly is the efficiency of production likely to rise. Accordingly, there must be stringent factory regulations, governing the hours of labour and the conditions of sanitation, lighting, ventilation and safety; and there must be the fullest freedom for the workers to form Trade Unions and to engage in collective bargaining without being accused of 'subversive activities.'

The capital needed for this growth of native industries should be derived from internal sources, and not from foreign loans, which should be reserved for the major economic projects to be developed under government auspices. The Government, through its State Bank—for I assume nationalisation of essential banking enterprise in the colonies—should be prepared to aid with medium-term as well as short-term capital advances, and even, when necessary, with some long-term capital. But there should not be brought into existence in connection with this type of

industrial development any new class of foreign bondholders entitled to draw tribute.

Government Investment of Capital

The position is necessarily different in relation to the major projects of development to be sponsored by the colonial Governments. For these projects foreign loans will be unavoidable, if the whole pace is not to be slowed down to a crawl. Here, then, the vital factors are, first, the amounts which the British Government[1] is prepared and able to devote to free grants in aid of colonial economic development, and secondly, the rates of interest at which colonial Governments are to be enabled to borrow in the London market.

The Colonial Development Acts

The principle of free grants of capital for colonial development has been accepted already. A beginning was made with the Colonial Development Act of 1940, under which a grant of £5 millions a year for ten years was made available, subject to the condition that any part of the money not spent within the year for which it was voted should revert to the Treasury. This proviso was in practice fatal; and very little of the money provided for in the Act was actually spent. The Act of 1944, however, has gone much further. It provides for a total grant of £120 millions spread over ten years, with a maximum of £17 millions for any one year and power to carry over to subsequent years sums not spent up to the maximum. Even £17 millions is, of course, a very small sum to spread over the vast colonial territories that are entitled to share in it. But at any rate a big advance has been made; and the colonial Governments can now plan in the knowledge that only a part of what they spend on capital development will involve them in additional interest burdens payable outside the colony. Since 1944 a number of colonial Governments have been busy preparing plans, to be financed partly out of the grants under the Act and partly out of loans; but, as far as I know, the only plan so far published[2] is for Nigeria, and even this does not include the sections dealing with agriculture and forestry, which are bound to occupy a key position in the plan as a whole. The Gold Coast also published a Development Plan in 1944; but this was under the old Act, and now needs to be considerably expanded and revised.

[1] And, of course, other Governments in colonial areas under their control.
[2] December, 1946.

The Nigerian Development Plan

The plan of the Nigerian Government, as far as it is available, is spread over the sixteen years from 1945 to 1960, but is worked out in detail only up to 1955. The total cost, excluding agriculture and forestry, comes to nearly £40 millions. The largest items are for building (£9 millions), medical services (£8 millions), roads (£7 millions), urban and rural water supply (each £5 millions), and hydro-electricity (£1,800,000). Education gets only £1,688,000 for the next ten years, with a hint of more to come after 1955; and the balance is made up of £900,000 for telecommunications and £400,000 for extra personnel to administer the scheme. The Nigerian Government plans to draw as heavily as possible on the Colonial Development Fund for financing the earlier stages of the plan, and to raise most of the money for the later stages by way of foreign loans.

£40 millions, spread over the population of Nigeria, is roughly £2 a head—not an extravagant sum to spend over 15 or 16 years, even if we add to it something substantial for agriculture. But even £40 millions, if the whole sum had to be raised at interest, would involve a very heavy burden on Nigerian public finances. In 1944 the existing public debt of Nigeria stood at nearly £25 millions, and total public revenue was about £11 millions, as against only about £5 millions before the war. In 1939 total exports amounted to about £14 millions, as against imports of £8,600,000. Nigeria, like some other colonies, has been able under war conditions to achieve a substantial budget surplus; but the future depends on the prices which Nigerian products—chiefly tea, cocoa, ground-nuts, palm kernels, and palm oil—are able to command in the world market. It is no light matter to embark on policies which mean a large growth of external debt, unless the capital can be borrowed on exceptionally favourable terms. Yet plainly without borrowing there is no way in which rapid economic development can be secured, unless Great Britain is prepared to make gifts to the colonies on a greatly extended scale. And it is a question whether Great Britain, confronted with the huge sterling debts accumulated during the war and with the prospect of an adverse balance of payments, can afford to do this, at any rate unless the gifts are to be spread over a long period, and are to take the form of actual deliveries, free of charge, of British-made capital goods.

Other Empires

Throughout this chapter, I have written in terms of British colonies, rather than of colonies in general, partly because I know

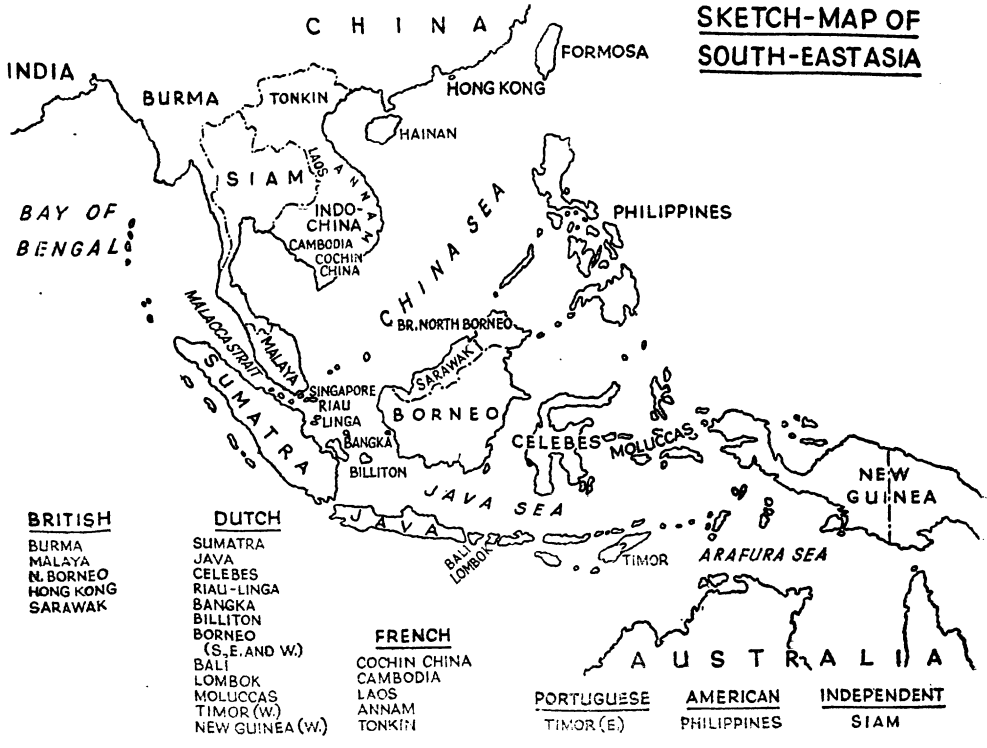
much more about the British colonies than about other dependent empires, and partly because the wider the treatment the broader the generalisations were bound to become. I cannot, however, leave the subject without at least a glance at some of these other empires.

In 1939 the dependencies of the British Empire, excluding India's 380 millions but including all other non-self-governing territories and mandated areas, had an aggregate population of nearly 90 millions. Next came the Dutch and French empires, each with about 70 millions. The Japanese Empire is harder to delimit: including Manchukuo but excluding other occupied areas in China, it extended in 1939 over about 65 million persons. By comparison other empires were quite small. The United States had nearly 20 million subjects, mainly in the Philippines, to whom full independence had been promised almost at once.[1] The Belgians had about 14 millions, mainly in the Congo; the Portuguese nearly 15 millions, mostly in Africa; the Italians, including Ethiopia, recently seized by force, fewer than 9 millions, and the Spaniards about 1 million. These were the only considerable empires including detached dependencies, as distinct from such 'empires' as those of China and the Soviet Union, consisting of solid blocks of territory subject to a common political system and devoid of subject peoples, though not of racial and linguistic differences within their frontiers.

The Dutch Indies

Of all these other empires, much the richest was that of the Dutch in the East Indies. Dutch Indonesia stretches from south of Malaya almost to Australia. It has an area of 735,000 square miles and a population of about 70 millions, of whom two-thirds are in Java. There are—or were in 1939—nearly a quarter of a million persons who were classified as Europeans among the inhabitants of the Dutch colonies—many more than in the British territories near by. Most of them, nearly 200,000, were in Java; and they formed a privileged community, governed by Dutch law. In the main, they were officials or business men engaged in commerce or in supervisory positions in the oil industry or in a few other industries under European management. There were also in Indonesia about 1,250,000 Chinese, and a substantial number of Arabs, mainly engaged in trade. There is thus a mixture of races not unlike that of Malaya, except that the natives, who are mainly Malayans, preponderate greatly in numbers. Java, which is much more densely populated and more

[1] It came into force, at any rate nominally, in 1946.


SKETCH-MAP OF
SOUTH-EASTASIA
CHINA
INDIA
BURMA
TONKIN
FORMOSA
HONG KONG
HAINAN
SIAM
LAOS
ANNAM
INDO-
CHINA
CAMBODIA
COCHIN
CHINA
BAY OF
BENGAL
CHINA SEA
PHILIPPINES
BR. NORTH BORNEO
MALACCA STRAIT
MALAYA
SINGAPORE
RIAU
LINGA
BANGKA
BILLITON
SUMATRA
SARAWAK
BORNEO
CELEBES
MOLUCCAS
NEW
GUINEA
JAVA SEA
JAVA
BALI
LOMBOK
TIMOR
ARAFURA SEA
AUSTRALIA
BRITISH
BURMA
MALAYA
N. BORNEO
HONG KONG
SARAWAK
DUTCH
SUMATRA
JAVA
CELEBES
RIAU-LINGA
BANGKA
BILLITON
BORNEO
(S., E. AND W.)
BALI
LOMBOK
MOLUCCAS
TIMOR (W.)
NEW GUINEA (W.)
FRENCH
COCHIN CHINA
CAMBODIA
LAOS
ANNAM
TONKIN
PORTUGUESE
TIMOR (E.)
AMERICAN
PHILIPPINES
INDEPENDENT
SIAM

intensively developed than the other islands, rivals Malaya in the production of rubber and tin, and is also a considerable producer of tea, coffee, tobacco, sugar, copra, essential oils, pepper, and of course quinine, of which it is the main source. There are many plantations, under both European and Chinese ownership; but most of the land is tilled by native producers.

Before the Japanese occupation, a considerable part of the Dutch colonial empire in Asia was under various forms of indirect rule. There were local native rulers, recognised by the Dutch administration, in the less developed areas of Java, as well as of the other islands; and Dutch, British and American companies, for planting as well as for mining, held large concessions from these rulers. Nearly half Sumatra was held on lease by a single Dutch company, with a concession authorising it to undertake vast works of development and economic exploitation. Sumatra, however, is very thinly populated—unlike Java, where there is no room for foreign concessions on anything like the same scale. The vast difference in populousness between the islands of the Dutch Empire in the East Indies can be seen from the following figures, taken from the Census of 1930:

THE DUTCH EAST INDIES

(*Date: 1930*)

	Population, 000	*Area, 000 square miles*	*Population per square mile*
Java and Madura	41,718	51·0	817
Bali-Lombok	1,803	4·0	454
Sumatra	7,678	164·0	47
Celebes	4,232	73·0	58
Riau-Linga	298	12·2	24
Banka-Billiton	279	6·5	43
Moluccas	893	192·0	5
Timor	1,657	24·4	68
Borneo	2,169	208·3	10
Total	60,727	735·3	83

It will be seen that more than two-thirds of the total population of Dutch Indonesia are concentrated in Java, which is peopled many times as densely as India and more densely than the most populous European countries, such as England and Belgium. Moreover, numbers have been rising very fast. In 1939 the population of Java and Madura was estimated at 47,700,000, and that of the Netherlands Indies as a whole at 69,435. By now, Java alone exceeds 50,000,000, and the entire area has probably at least 75,000,000 inhabitants.

Dutch government of these extensive colonial positions, which were a large source of profit to the Dutch in Europe, has always been based on autocracy, combined with a considerable element of indirect rule, especially in the less advanced areas. Executive authority has been vested in a Governor-General appointed by and responsible to the home Government, aided by an Advisory Council without executive power. The Council, as well as the Governor-General, has been nominated by the Queen of the Netherlands, on the advice of the home Government. Since 1918 there has been in addition a *Volksraad*, partly elected by local government bodies and partly nominated, but this body too began as a purely advisory council, though it was granted certain limited powers of legislation under the revised Constitution of 1926. Following upon this reform, Java and Madura were divided into Provinces, further sub-divided into Residencies, under officials appointed by the Government; and a similar system of Residencies has existed in the other islands. The subordinate officials have been mostly natives; but the responsible positions have been held by Dutchmen, appointed and not chosen by any sort of election.

The pre-war *Volksraad* included representatives of the various racial groups, but the system of representation was heavily weighted on the side of the Europeans. The term 'European' has, however, not the same meaning in the Dutch as in the British colonies in Asia. The Dutch settlers have intermarried to a considerable extent with the Malayans, and have for the most part remained permanently in the country instead of returning home after "making their pile." The descendants of such mixed marriages between Dutch men and native women have enjoyed all the privileges of Europeans, and regard themselves as Europeans. That is largely why the Dutch Indies appear to have so much larger a population of Europeans than the colonies of Great Britain and France. This very mixture of stocks, however, creates a special problem in face of the rise of a nationalist movement in Indonesia; for the 'Europeans' cling with the greater tenacity to their privileges because their roots are in Indonesia, and not in Europe, and they have no real European homeland to which they can return.

What Happened in Java

The Europeans in the Dutch Indies numbered in 1939 about 250,000, and there were in addition about 1,500,000 Chinese, who constitute a further problem in view of the growth of nationalist sentiment. Up to 1941 this sentiment was not strong,

except among a limited class of 'intellectuals' in the urban centres of Java. It had little hold in the other islands, and even in Java appeared to possess little support outside the big towns. Nationalism still appears to be relatively undeveloped outside Java; but in Java the effect of the Japanese occupation has undoubtedly been very great. The Japanese expelled the European administrators and interned the greater part of the European population; and they handed over administrative functions to natives of the island, under Japanese military control in matters of policy. Many of the nationalists accepted office under the Japanese, and on this ground have been denounced by the Europeans and by the Dutch Government as 'collaborators.' This was the basis of the Dutch refusal, kept up for a long time, to have any dealings with Dr. Soekarno, whose National Government was set up while the Japanese were still in occupation, as part of an attempt, when defeat had become inevitable, to hand over power to the natives rather than to the Dutch. As a further part of this same policy, the Japanese forces allowed a large proportion of their stocks of weapons and ammunition to fall into the hands of the nationalists, instead of keeping them to surrender to the Allied commanders when they arrived on the spot. This policy was facilitated by the fact that there was an interval of some weeks between the Japanese surrender and the arrival of Allied forces in Java; and, even when a small British contingent did arrive, with the task of disarming the Japanese and releasing the internees from the camps in the interior, its numbers were far too small to allow it to occupy more than a very restricted area round Batavia, and it was unable either to release most of the internees or to insist on the transfer of the Japanese weapons and stores. A much longer interval elapsed before any Dutch forces reached Java; and, even when they did, they were but scratch contingents made up mainly of released prisoners of war and internees, or of natives from other islands, between whom and the Java nationalists there were ancient enmities.

Consequently, an exceedingly confused situation developed. The shortage of British and the absence of Dutch troops were due to difficulties of transport. The Dutch merchant fleet formed part of the Allied shipping pool; and the Dutch were aggrieved by the refusal to release any part of it for the sending of Dutch troops to Java, at a time when the British were successfully reoccupying Malaya and Burma. The British were placed in an embarrassing position. Nominally, the British forces had come to Java only to disarm the Japanese forces and to release their prisoners and internees. But this could not be done without the co-operation of

the nationalists, who were in control of most of the country; and the nationalists were by no means prepared to give up the weapons they had obtained from the Japanese, or even to surrender the interned 'Europeans' in the interior. The nationalists, in effect, were determined to resist the reimposition of Dutch arbitrary rule, and realised that their one hope lay in retaining their arms—and also perhaps in keeping the internees as hostages until the Dutch Government admitted, or at least went some way towards meeting, their claims.

At first, the nationalists were disposed to feel friendly towards the British, who disclaimed any intention of interfering in Java's internal affairs. But the Dutch on the spot, and the Dutch Government at home, pressed strongly that the British, as Allies, were under an obligation to aid them in suppressing their rebellious subjects and in re-establishing Dutch authority—the more so because they blamed the British for refusing them ships in which to send their own troops to quell the revolt. Both in Holland and in Java a large section of Dutch opinion took the view that there was no real military power behind the nationalists, and that quick, energetic military action would speedily put an end to the entire trouble. Whether or not the nationalists could have stood up to serious military operations—and probably they could not have done so in the more settled parts of the country—this view was based on a great underestimate of the strength of nationalist feeling and of the force that would be needed to deal with guerrilla activities all over the island. The British could not have undertaken to suppress the nationalists even if they had been willing to do so; but over and above this they were most unwilling to become involved in a war which, while none of their affair, would have been bound to raise up for them very serious complications in Malaya, Burma, and India—areas in which they were trying their hardest to arrive at settlements that would not embroil them in war.

Dutch Policy in Indonesia

The British forces in Java, despite this reluctance, did become involved in quite serious fighting; but they did their best to limit the scope of their operations and continued to press the Dutch to endeavour to arrive at a settlement acceptable to the nationalist leaders. The Dutch Government showed for some time the greatest reluctance to do anything of the sort. In 1942 Queen Wilhelmina had announced that for the future the Dutch colonies in Asia and in America were to constitute integral parts of the Dutch Kingdom, and that it would be for an imperial conference,

to be summoned after Dutch control had been re-established, to settle the future relations between the component parts of this unified Empire. The nationalists realised that, if they allowed Dutch authority to be put back first, their chances of securing any approach to national independence would be small; and they accordingly insisted on negotiations taking place while they remained in possession of their arms and in control of the greater part of Java. The nationalists, however, were by no means all of one mind. At one end was an ardent Youth Movement, the *Pemoeda*, created under the Japanese occupation and largely under Japanese inspiration, with the slogan "Asia for the Asiatics" and a fanatical hostility to the reimposition of any sort of European authority: at the other end was a body of moderate nationalists who realised that their followers were utterly lacking in political and economic experience, and that the complete eviction of the Europeans would be likely to lead to an utter dislocation of the economic life of the country, with its high degree of dependence on export of primary products to the advanced countries. The situation was further complicated by the presence on the nationalist side of large tribal elements, hostile to the Dutch, but not animated by any feeling for unified nationalism, and not at all prepared, in conditions which offered large openings for loot and violence, to accept the leadership of the nationalist politicians in any move that might result in a return to law and order. When the Dutch at length showed some preparedness, under British pressure, to negotiate, the moderate nationalists created a Government under Dr. Sjahrir, who was not branded in the same way as Dr. Soekarno as a 'collaborator'; and Dr. Van Mook, on behalf of the Dutch Government, began with Dr. Sjahrir and his Cabinet the negotiations which under Dr. Van Mook's skilful guidance led, after many vicissitudes, to the Cheribon Agreement of November 15th, 1946. Opinion in Holland was sharply divided on the question of policy. The Dutch reactionaries for the most part favoured an attempt to re-establish Dutch rule by force, and only thereafter to negotiate—presumably with puppet delegates of their own choosing—concerning the future government of the islands. Dr. Van Mook realised the impracticability of any such policy, especially in view of the refusal of the British to keep their troops in Indonesia beyond the period required for liquidating their international commitments on account of the repatriation of prisoners of war and the release of Allied internees; and in Holland the parties of the left took the same view. At the Malino Conference of July, 1946, Dr. Van Mook had provisionally agreed on terms of settlement which included

the constitution of an Indonesian Federation, to consist of four States—Java, Sumatra, Borneo, and a 'Great Eastern' group—under conditions of association with Holland that were left to be determined later. This agreement needed the approval of the Dutch Parliament, and the Dutch Government was not prepared at that stage to go beyond introducing a Bill to set up a body of Commissioners who were to proceed to Indonesia and to endeavour to negotiate an agreement on the spot in conjunction with the Lieutenant Governor, Dr. Van Mook. This Bill, after meeting heavy conservative opposition, passed the Dutch Parliament at the end of August, 1946; and it was of good omen that Dr. Schermerhorn, the former Labour Prime Minister of Holland, was appointed to head the Commission.

In the meantime conditions in Indonesia had been getting worse, owing to the failure of the Dutch to accept promptly the agreement of July. There was a good deal of scattered fighting, in which British-Indian forces were involved, and negotiations were broken off. Towards the end of August Lord Killearn was sent to Java by the British Government to endeavour to arrange a truce and to mediate, if he could, between the Dutch and Indonesian authorities on the spot. The arrival of the Dutch Commissioners and the efforts of Lord Killearn produced a rapid improvement in the situation. The Dutch withdrew their refusal to negotiate with Dr. Soekarno, the Indonesian President, or with others whom they had denounced as 'collaborators'; and a Conference which opened on October 7th, 1946, with Lord Killearn in the chair, succeeded both in arranging a truce (including a promise by the Dutch not to send further troops to Indonesia and a 'standstill' which left the parties in occupation of the areas actually held by them) and in reopening direct political discussions between the Dutch Commissioners and a reconstituted Indonesian Government resting on a broader basis. A 'cease-fire' actually came into operation in most areas on November 4th; and on November 15th the Dutch and Indonesian delegates signed the important Cheribon Agreement. This began by recognising the existing Indonesian Government as the *de facto* Government of both Java and Sumatra, and went on to provide for the inclusion of the Indonesian Republic, covering these islands, in a wider Federation of Indonesian States, which was to be linked to Holland, but was to be put forward for independent representation as a member of the United Nations. Steps were being taken at the end of 1946 to bring into existence the new State of East Indonesia, which was meant to include most of the Dutch islands except Java and Sumatra. The position in

Borneo was still highly uncertain, and it was left open whether it should form a separate State or become part of East Indonesia. The Cheribon Agreement had still, at the end of 1946, to receive ratification by the Dutch Parliament. After its conclusion, disagreements arose over its interpretation, the Dutch attempting to place their own glosses on some of the terms as a condition of ratification. These glosses were, however, withdrawn, and the agreement endorsed, in March, 1947. In 1942 the Dutch policy, as laid down by law, had been that of making the Dutch possessions overseas integral parts of the Dutch Kingdom, whereas the Cheribon Agreement calls for the reconstitution of the Dutch Empire as a federation in which Holland is to form one part and the Indonesian Federation a second—the future status of the Dutch possessions in America (Surinam and Curaçao) being still undetermined. If the Cheribon Agreement is worked in the right spirit the outcome will be satisfactory; but much remains to be done, on the Dutch side to carry it out, and on the Indonesian side to establish a system of government holding effective authority.

It is to be noted that, although extreme nationalism is playing a large part in Java, Communism has so far made little way. The inspiration of the extreme group has come from the Japanese occupation, and not from the Soviet Union; and the ideas behind it have been those of nationalism rather than of Communism. It has been a movement *against* Europeans, rather than *for* any particular kind of social reorganisation. Political, as distinct from nationalist, consciousness is indeed still immature; and there exist no strongly organised parties with a mass following. This is why the ability of Dr. Sjahrir and the other political leaders to speak for the main body of nationalist opinion can be so easily questioned: it is a fact that, if they were to go too far towards compromise with the Dutch, they might find themselves bereft of followers, without any alternative group of leaders being in a position to assume control. Some of the more intransigeant Dutch would welcome this, as closing the door to further parleys; but responsible leaders in Holland realise that their country can ill afford to face the prospect of a long and exacting guerrilla war in the jungles and tribal areas of Java and the other islands; and the signing of the Linggadjati Agreemnt in March, 1947, confirmed their victory over the reactionary influences both in Indonesia and at home.

French Indo-China

The French Empire in Asia is both smaller and less wealthy than the Dutch. It is situated mainly in Indo-China, between

[1] March, 1947.

Siam and the Chinese Republic, and it has a population of about 24 millions. It has consisted mainly of 'protectorates,' nominally under native rulers but in fact governed in French interests by French Residents who have acted as their 'advisers.' Cochin China, unlike the other areas, has had the status of a French department, and has elected deputies to sit in the French Chamber. In all French China there were in 1939 only about 30,000 Frenchmen, mainly engaged in administration, mining, and public utility occupations. Indo-China is mainly agricultural, and includes a great rice-growing area in Cochin China, Cambodia, Laos, and Southern Annam. But it is also important industrially—especially the Tongking region and Northern Annam, which produce coal, zinc, tea, wolfram and spelter. Rubber is also grown on an increasing scale.

French Indo-China, like the Dutch Empire in the East Indies, fell a victim to Japanese aggression during the war. It was occupied by the Japanese with the consent of the Vichy Government in France; and, here as elsewhere, the Japanese used their opportunity to stir up anti-European feeling. The Annamese, however, who are a warlike people, did not take kindly to Japanese occupation, any more than they had done to French rule. They resisted the Japanese, and, when the Japanese collapse came, made ready to assert their independence against the French. The Japanese withdrawal left behind an active nationalist movement, supplied with considerable quantities of Japanese arms. The task of receiving the surrender of the Japanese forces and of taking over the military control was divided between the British, accompanied by a small French contingent, in the south, and the Chinese in the north, as the French had no forces available for reoccupying the country. The principal element among the nationalists was Annamese, and the main nationalist strongholds were in the north, which is also the industrial part of the country, with considerable mineral resources. Of the four main areas, Cochin China in the south, Cambodia in the west, and Southern Annam, to the north-east of Cochin China, are mainly agricultural, rice being extensively grown and in normal times a considerable export. Laos, lying to the north of Cambodia, between Annam and Siam, is mainly undeveloped and thinly populated. Tongking and Northern Annam, away in the north of Indo-China, towards the frontier of China proper, have some affiliations with the Chinese in culture and outlook, and a considerable Chinese population exists, not only in this region, but also in Cochin China, especially in the towns. The Annamese, however, are a distinct people, with a strong nationalist feeling of

their own, and with warlike instincts. They are mainly Buddhists, whereas Mohammedanism is strong in Cambodia, and tribal religions exist among the populations of the undeveloped areas in the interior.

The Annamese nationalists offered strong opposition to the British and subsequently to the French reoccupation of Cochin China, which belongs racially with Annam, and there was a good deal of irregular warfare in and around Saigon in the south before French authority was re-established. In the north, the Chinese forces, when they withdrew, left behind an Annamese nationalist Government, known as the Viet-Minh Government; and the French, who had always ruled Annam and Tongking through Residents acting nominally on behalf of the native King of Annam, were compelled for the time being to come to terms with this Government, and to recognise its authority over the northern part of the country. This did not satisfy the Annamese, who, unlike the Cambodians and Laos, have always resented French authority. The Annamese consider that they have a claim to control Cochin China, as well as the whole of Annam and Tongking, and only yielded to force in allowing French rule to be re-established in the South. The French also had some trouble with the Siamese, who were allowed by the Japanese to re-annex certain areas, taken from them by the French in 1907, and were accused by the French in 1946 of allowing Annamese forces to operate against them from bases in Siamese territory. The disputed areas were restored to Indo-China in 1946. The inhabitants of western Indo-China have, however, in general much more in common with those of Siam and of Java than with the Annamese and the other peoples of Northern and Eastern Indo-China; and, were the French control to be removed, Cambodia might possibly gravitate towards Indonesia, whereas the Annamese would probably link up, at any rate loosely, with the people and Government of China proper.

Viet-Nam and the French

The French Government, in the earlier stages of the re-occupation of Indo-China after the Japanese surrender, was in a very weak position. It owed the re-establishment of its authority in the southern part of the country to British military help, and was clearly unable to deal with the Annamese in Northern Annam and Tongking, if they were minded to resist re-occupation by force. The declared French policy at this stage was that of conceding self-government to Indo-China, which was to be re-constituted as a Federation forming a constituent in the *Union Française*—the

new shape that was conceived of for the French Empire as a whole. Admiral d'Argenlieu, when he arrived in Indo-China as French High Commissioner in October, 1945, made large promises of independence under the French flag; and the Hanoi Treaty provisionally signed in March, 1946, recognised the Viet-Nam territory as a 'free State' forming part of an Indo-Chinese Federation within the French Union, and also promised that French troops should be withdrawn, except from certain bases, within five years, and that a referendum should be held in Cochin China to determine whether or not it should become part of Viet-Nam. On these terms the Viet-Nam Government agreed to receive French troops to replace the Chinese forces which had agreed to leave Tongking and Northern Annam; and the French in fact made haste to increase their forces in Indo-China. They had already signed, in January, 1946, a treaty with the King of Cambodia, who had asserted his loyalty to France (the Cambodians, as we have seen, have no love for the Annamese) ; and in February, even while they were negotiating with Viet-Nam, they set up a Consultative Council for Cochin China, and set out to separate it as far as they could from Annam. This Council soon blossomed forth into a sort of puppet Government; and the Dalat Conference of April-May, 1946, between the French and the Viet-Nam delegates broke down mainly over the French rejection of Viet-Nam's claim to include Cochin China within its area. In June, the French, though further negotiations were pending, recognised Cochin China as a separate Republic within the Indo-Chinese Federation.

Despite this, Viet-Nam sent delegates to a Conference in France—the Fontainebleau Conference of July, 1946. But while this Conference was actually in progress, and the Viet-Nam leaders were away from Indo-China, the French called at Dalat, in Tongking, a quite separate Conference of delegates from their own puppet Governments and groups to draw up proposals for an Indo-Chinese Federation in which Cochin China was to be a separate constituent. The calling of this Conference caused first a suspension and then an entire breakdown of the negotiations at Fontainebleau. The Fontainebleau Conference was broken off by the French on September 8th, 1946, and a week later the French Colonial Minister, M. Moutet, and the President of the Viet-Nam Republic, Dr. Ho Chi Minh, signed a temporary agreement, called a *modus vivendi*, explicitly affirming that the Hanoi Agreement of March, 1946, remained in force. On this uneasy footing matters rested for some months, till in December the smouldering trouble flared up into a renewal of actual warfare. It seems beyond

question that the French authorities had been playing a double game, encouraging Annamese hopes of concessions which they never intended really to make, and in the meantime building up their military strength, despite promises to the contrary, with a view to asserting their supremacy by force. The Annamese leaders, on their side, were not prepared to renounce their claims to Cochin China, and became gradually convinced that, the longer they stayed quiet, the more certainly would the French undermine their position. They therefore chose resistance as preferable to what seemed an otherwise inevitable whittling away of their power; and the French retorted by breaking off all relations with the Viet-Nam Government, and attempting to suppress the Annamese by force. During the early months of 1947 there was steady guerrilla fighting. Admiral d'Argenlieu, who had been largely responsible for the reaction, was recalled; but the new French Government demanded and got large military credits for the war against the Annamese. The Communists strongly attacked the Indo-Chinese policy of the Government and of the military; but they were unwilling to oblige the French Right, which used the dispute as a means towards driving them out of the Government, by forcing matters to an issue. The Viet-Nam Government, on its side, showed no wish to break away wholly from the French connection, if it could be assured of real self-government within the French Union. But it seemed as if most Frenchmen, except the Communists, were totally incapable of conceiving that any people which had the good fortune to be ruled by Frenchmen could possibly entertain a wish to be ruled in any other way. In particular the fact that Cochin China, as one of the old French colonies (dating back to 1863) had the status of a French department and was represented by deputies in the French Chamber, and that a substantial number of its inhabitants had the status of French citizens, complicated the position, because it made a large section of Frenchmen feel under an obligation to defend their own fellow-citizens in Cochin China from being brought under Annamese rule. Thus the French, when it came to the point, made a much sadder bungle of their Asiatic colonial problem than the Dutch seemed like making early in 1947.

The Problem of South-east Asia

The fortunes of the three empires in South-east Asia—the Dutch, the French, and the British—are obviously linked together both by common economic interests and by their key geo-

graphical position between India and China, and on the sea routes from the west to China, Japan and Oceania. With these colonial areas goes Siam, the one State in the region that has managed to preserve its independence. The peoples of the region as a whole have no racial homogeneity, and they speak a wide variety of languages belonging to different linguistic groups. The name 'Indonesia,' which has come of late to be loosely applied, sometimes to the islands only and sometimes to the entire region, had originally a linguistic significance, but has now no precise meaning. It is most often loosely related to the areas inhabited mainly by Malays—that is to say, primarily to Malaya and the greater part of the Dutch Indies. The Siamese and the Burmese, with some of the inhabitants of the western part of Indo-China, form a second large group, and the Annamese a third smaller group. Chinese settlers are widely scattered over most of the region; they are most numerous in Malaya, but play an important part in the towns in other areas as well. Indian labourers, as we have seen, have also been numerous in Malaya, which has the greatest mixture of races. Side by side with these relatively advanced groups, there are many tribes living under very primitive conditions—not only in Borneo and in New Guinea, but also in Sumatra and in Eastern Java and in Northern Burma.

This entire region, up to the very frontiers of India, fell an easy victim to Japanese aggression in the period after the Pearl Harbour attack; and in none of them was there any serious resistance on the part of the native inhabitants. There was, indeed, hardly anywhere any readiness to collaborate with the European rulers in opposing the Japanese; and there were everywhere groups which either welcomed the invaders from the outset or readily worked with them when they had taken possession of the various countries. The Japanese everywhere represented themselves as the liberators of the Asiatic peoples from European domination, and preached the doctrine of 'Asia for the Asiatics' under Japanese leadership and tutelage. In some areas the Japanese subsequently made themselves unpopular by their exactions and by the harshness of their control; but in most parts of the region the effect of their presence was to create nationalist movements of a sort, and these movements, on the withdrawal of Japanese rule, were inevitably led largely by former 'collaborators.' Such collaboration it is absurd to regard as criminal. The peoples of these countries had no reason to like the European rule to which they were subject, or not to take their chance of escaping from it when it seemed to have come. There was no reason likely to appeal to them for taking sides in a war between Fascism and democracy on the

Western model; for they had not been partners in any such democracy and had no ground for disliking Hitler or the Japanese militarists any more than they disliked the British, or the French, or the Dutch.

It is therefore in no way surprising that, being helpless to resist Japanese occupation if they had wished to do so, they should have taken every chance of getting power into their own hands in the sphere of local control and administration, or that, when the Japanese system crumbled, they should have been ready to lay hands on Japanese weapons wherever they could, and to proclaim their intention of using them to resist the reimposition of European rule. In Burma and in Malaya, developments of this order were forestalled by the promptitude with which British forces appeared on the spot to receive the Japanese surrender, to take over Japanese arms, and to reintroduce British rule; and because of this fact nationalism in these countries did not take the form of armed revolt, but only that of a political demand—for self-government in the case of Burma, and of a protest against the consolidation of British rule in a new Malayan Union in the case of the Straits Settlements and the Malay States. The Dutch and the French, as we have seen, were both placed at a disadvantage from having no troops available on the spot to reoccupy their colonies at once and so prevent Japanese arms from getting into the hands of the natives; and consequently nationalism in Java and in Indo-China took a much more aggressive shape, so that both the Dutch and the French had to choose between trying to reach some sort of accommodation with the insurgent forces and facing a long and difficult war of suppression. The British, having successfully reoccupied their own colonies, were not much liked when they started preaching the virtues of peaceful accommodation to their worse-placed allies, who not unnaturally felt that they were being let down. This applied especially to the Dutch, who had no 'Vichy' past to look back upon; and there was considerable Dutch pressure on the British to take a strong line in Java in re-establishing Dutch rule. To attempt this, however, would have greatly complicated Great Britain's negotiations with the Indian leaders, who were violently opposed to the use of Indian troops in Java to suppress the nationalists, and were disposed to sympathise strongly with the native independence movements throughout the region.

Ideally, all this group of countries, or at any rate most of them, ought clearly to form some sort of federal unit of their own. The nucleus of such a region would be British Malaya and the Dutch East Indies; but Burma and Siam might well be members of it,

and it might also reasonably include the Philippines, if not Formosa. Indo-China is a more doubtful case. The more natural affiliation of Annam and Tongking and of most of Cochin China is with China rather than with the 'Indonesian' peoples; but Western Indo-China, especially Cambodia, belongs more naturally with the grouping based on Malaya, Burma and Siam. Clearly, however, no regional grouping of this sort is compatible with the survival of the European colonial empires, even if these were to be reconstituted in ways that would concede a large measure of self-government to the peoples. The Dutch East Indies cannot easily become a constituent part both of a federal Dutch Empire and of a Federated Union of South-east Asia; nor can Burma and Malaya easily straddle between such a Union and the British Empire, or Western Indo-China be a part both of a French Union and of a group of Asiatic States. Imperialism thus cuts right across the larger aspirations of those nationalists who want not merely self-government within each separate area, but the freedom to combine into a larger federal group.

Nor should it be overlooked that the nationalist movement is at very different points of articulate development and hold on popular consciousness in different parts of the region. It is strongest in Burma; but the Burmese seem more likely to succeed in making their own terms with the British, and in this country the British Government is definitely pledged not to concede less to the Burmese people than to the Indians—a promise that was made when Burma was divided from India in 1935. In face of this promise, the Coalition Government's White Paper of May, 1945, was nothing less than a breach of faith. It foreshadowed a period of arbitrary government, to be ended by a gradual return to the pre-war system, and then only succeeded by an approach by stages to some sort of 'Dominion' status; and it was followed up by the return of the pre-war Governor to office, and by an attempt to reinstate the pre-war administrative system, and to select for consultation only the most amenable of the Burmese politicians. Instead of seeking to work on friendly terms with the Burmese Anti-Fascist People's Front, which had been the chief element in the resistance movement, the Government, even after Labour had come to power in Great Britain, continued to antagonise the national leaders. For some of its immediate actions there was excuse in the great devastation which the war had left behind and in the need for external help in putting the country's economy back on its feet. But this was no good reason for the reactionary ineptitude of the British Government's policy through most of 1946, or for the failure of the Cabinet Mission, when it

visited India, to pay the smallest regard to Burmese claims. Towards the end of 1946, however, the British policy was changed. There was a new readiness to discuss Burma's future, on terms not excluding independence, with the real leaders of national opinion; and in January, 1947, an influential Burmese delegation came to London, on the British Government's invitation, to open formal discussions for an acceptable settlement, and the outcome was an agreement, accepted by the Burmese delegates with two dissentients, conceding the full right of a Burma Constituent Assembly, which is to meet in 1947, to decide upon the country's future. This Assembly is to have full freedom to decide, if it so wishes, for complete independence; and, whether it so decides or not, Great Britain undertakes to further the admission of Burma as a member of the United Nations, as soon as the new State is established. The main reason for the refusal of two members of the Burmese delegation to accept this apparently satisfying agreement was that the claim of the Burmese Constituent Assembly to settle without further question the future of the national minorities which form a substantial part of the population, mainly concentrated in the hill areas, was not fully endorsed. The question of the future of the Karens, the Shans, the Chins, the Kachins, and the Nagas—all, except the Karens, inhabitants of Upper Burma—was left to be settled after a joint British-Burmese Committee of Enquiry has made its report. This issue may still give rise to trouble; but at any rate a promising new start has been made since the British Government agreed to negotiate with the real leaders of Burmese national opinion. That they won the real leaders, the elections of March, 1947, clearly showed.

Now that Burma, in these discussions, has won its independence, including the right to make foreign links of its own, they will probably be in the first instance with already independent Siam, rather than with any area now under colonial rule. As for the Malayan areas, including those under Dutch rule as well as Malaya itself, there seems to be no immediate prospect of revolt in British Malaya, where indeed the British Colonial Office now seems likely to 'pull off' its revised plan for a Malayan Federation that will for the time strengthen the British hold. In Java and Sumatra it seems probable that there will be an accommodation that will re-establish Dutch sovereignty in the form of an Indonesian Federation linked with Holland under the Dutch Crown, though in the other islands coherent nationalism is still so undeveloped as to afford scant foundations for a federal system based on national independence. The European powers, in view of the great economic importance of these areas to their own economies—not

least their capacity for earning dollars for the countries which are in a position to control their exports—will assuredly do their very utmost to retain enough control to keep themselves in enjoyment of these assets. The British, in addition, will desire to keep a tight hold on Singapore, at the cross-roads of the whole South-east Asia region.

If these predictions are correct, there will be for the present no independence, though there may be in some cases a considerable measure of self-government, for the colonial areas of South-east Asia, except British Burma and possibly, but not certainly, the Annamese part of French Indo-China. It does not, however, follow that there can be no approach to unification of economic policy. If Great Britain, France and Holland could work together in Europe, and could, in their several ways, come to terms with the nationalist movements in their several colonial areas, there is every reason why they should seek to follow a common regional policy in handling for the world market the key products of South-east Asia, including common production and development policies as well as common regulation of marketing. Both rubber and tin, the two outstanding products, had been already, between the wars, fields of experiment in international regulation of supplies. These inter-war forms of regulation were essentially restrictive, and were designed in the interests of European companies and planters rather than in those of the native peoples. What is to be worked for is the conversion of the highly restrictive controls of the inter-war period into orderly arrangements for the stabilisation of output at a high level, and for sale at fair prices, not by unilateral action of the producers and their government backers, but by agreed decisions taken in conjunction with the consuming countries. But these conditions are unrealisable to-day except on a basis of real and equal partnership between the European investing countries and the nationalist movements of the countries in which the investments are made. (See Note on p. 874.)

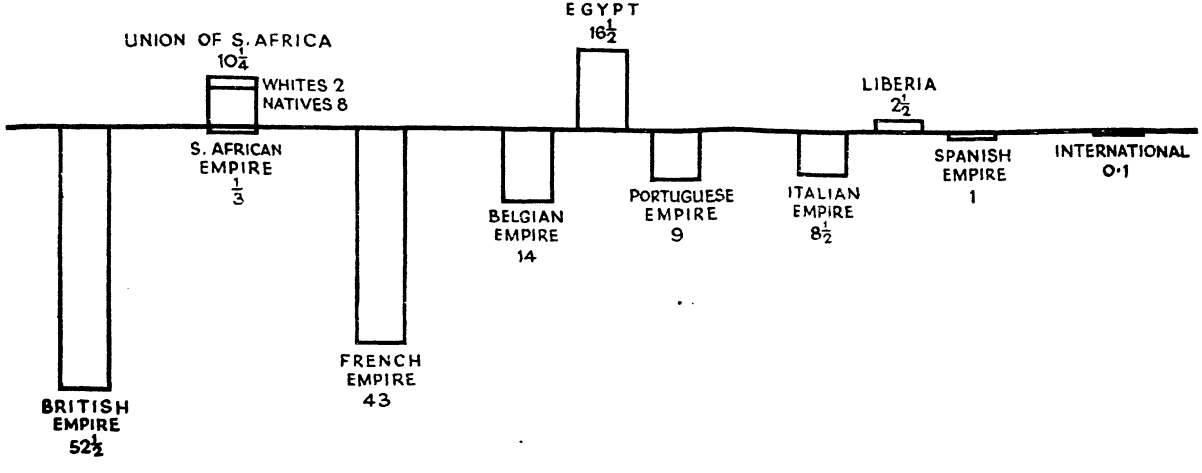
Empires in Africa

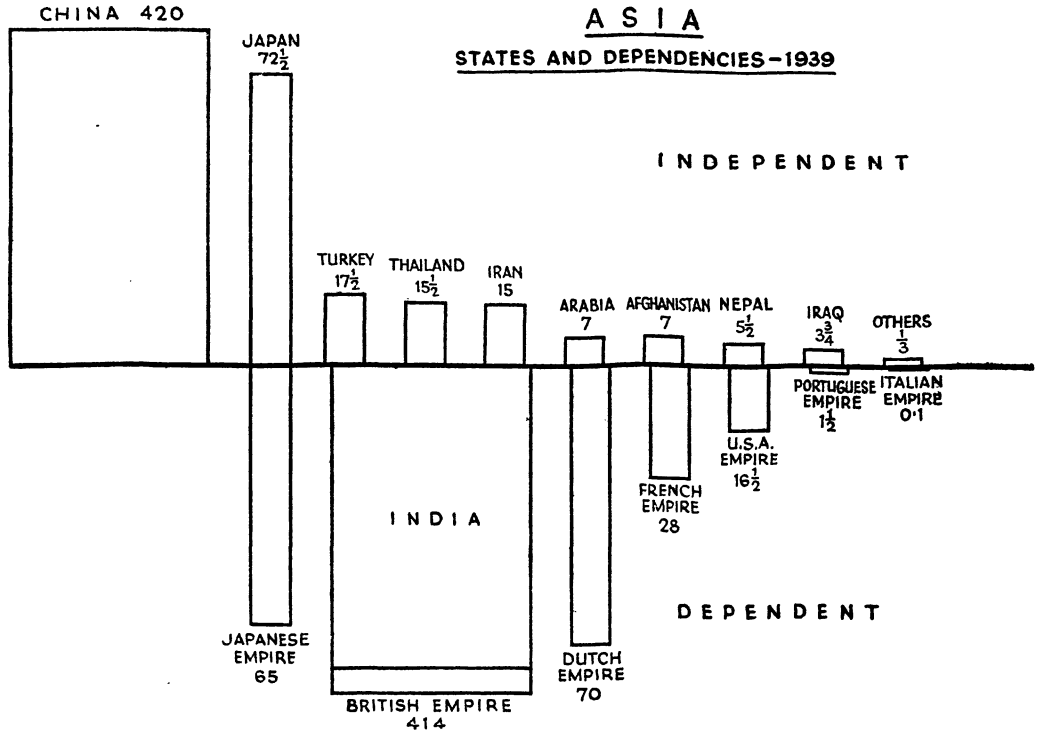
In Africa, there are not three empires, but six or seven—British, French, Belgian, Portuguese, Italian, Spanish, and South African; for the Union of South Africa, even apart from its mandated territory in South-west Africa, can be regarded as a white ruling power with its subject empire of native peoples. In 1939 these empires held sway respectively on about 53, 43, 14, 9, 8½, 1 and 8 million people. In all Africa there were but three even nominally independent States—the Union of South Africa, with its 2 million whites lording it over four times as many native

AFRICA

STATES AND DEPENDENCIES

1939




ASIA
STATES AND DEPENDENCIES – 1939
INDEPENDENT
DEPENDENT
CHINA 420
JAPAN 72½
TURKEY 17½
THAILAND 15½
IRAN 15
ARABIA 7
AFGHANISTAN 7
NEPAL 5½
IRAQ 3¾
OTHERS ⅓
PORTUGUESE EMPIRE 1½
ITALIAN EMPIRE 0·1
U.S.A. EMPIRE 16½
FRENCH EMPIRE 28
INDIA
JAPANESE EMPIRE 65
DUTCH EMPIRE 70
BRITISH EMPIRE 414

Africans; Egypt, with about 16 million people; and the negro Republic of Liberia, with about 2,500,000. Ethiopia, the remaining claimant, with its 5 to 6 million inhabitants, had passed for the time being under Italian rule, and comprised the major part of Mussolini's subject empire. Of the British possessions in Africa I have spoken already. The French empire covered most of Northern Africa—a vast and for the most part sparsely populated area, including the great Sahara desert. The Belgians held the major part of the Congo and therewith the very populous area of Ruanda-Urundi—a happy hunting ground for the recruitment of cheap native labour for the surrounding territories. The Portuguese were on both the east and the west coast nearer the south—in Mozambique on the east and in Angola and Portuguese Guinea on the west. Italy, before the war, held Libya, Eritrea, and Italian Somaliland, in addition to Ethiopia, recently overrun. Spain had the small Spanish zone in Morocco, and some almost empty stretches of land along the north-west coast. The Union of South Africa, in addition to the great native areas included within its frontiers, held the mandate for formerly German South-west Africa, which it failed, towards the end of 1946, to persuade the United Nations to hand over to it as an absolute possession. It had also failed to persuade the British Government to give over to it the colonial territories of Swaziland, Basutoland and Bechuanaland, which remained under the rule of the British Colonial Office and subject to a régime less inimical to the native populations than that of the Union.

The African continent had been carved up among the European powers in the course of a movement of imperial expansion and imperialist rivalry which reached its height in the closing decades of the nineteenth century. The resulting divisions of the continent bore almost no relation to nationality or social tradition or to any other recognisable principle. The white empires spread inland from trading stations on the coast until the whole of the vast interior had been nominally annexed to one or another of the imperialist rivals. In part, the work was done by practically independent companies, intent on trade, exploration, and the discovery of mineral resources. The Chartered Company of South Africa, the Royal Niger Company, and the Portuguese Mozambique Company are outstanding examples. Leopold of Belgium for a long time maintained in the Congo a private empire of his own, and under this rule the native population came near to being extinguished by the predatory barbarity of its conqueror. 'Red rubber' became a horrible legend—until the profitableness of African rubber production was extinguished by the growth of the

plantation economy of Malaya and the Dutch Indies. At length, in 1908, the Congo was annexed to the Belgian State, and the irresponsible rule of Leopold's *Compagnie Internationale* was replaced by a more respectable régime.

In each of the separate imperial spheres into which the greater part of the African continent has been marked out, the ruling power has introduced its own patterns of government and administration. This is not necessarily a uniform pattern for the territories subject to a single power—for example, the positions of Algeria, Senegal, Tunis, Morocco, and the Ivory Coast, within the French empire, are all different. But the pattern of administration in each country's dependencies tends to be greatly influenced by the type of civil servant it sends out. The British civil servant has been relatively well paid, and has looked forward to retirement on a satisfactory pension after a considerable period of continuous service in a single colony. He has isolated himself from the natives, and has maintained a colour-bar which has been in most areas nearly impassable. But he has usually not been cruel or exacting, and in general he has tried to be just according to his lights. The Frenchman has been much worse paid, and has usually served in the same area for a much shorter period. He has been much less strict about colour, but much more exacting in regard to his personal prestige, and very much more tyrannical in the repression of native agitations. The French, like the Dutch in Asia, have been much franker than the British in regarding their empire as a source of profit to the ruling power. Some will say that they have merely been less hypocritical; but that is not the whole truth. It is undoubtedly true that the French colonial services have failed to attract on the average as good a type of administrator as the British. Therewith, they have been cheaper, and have imposed smaller burdens on the public finances of the colonies. The Belgians, having been notoriously the worst, have of late ranked among the better colonial administrators. The Italians have been ruthless rulers, but admirable engineers.

Problems of International Collaboration in Tropical Africa

Between the territories which are subject to different empires there is hardly any collaboration. Except in the Congo Basin and in the mandated areas, where the open door to the commerce of all nations has been safeguarded by international covenant, colonial markets have been largely reserved for the products of the ruling country. Even Great Britain, which used to keep the door open, had banged it to before 1939 against the cheap exports of Japan. Each colony, to the extent that white influence has invaded it, has

taken after the civilisation of the ruling country: so that there has grown up, side by side with the old tribal customs, not one pattern of westernisation, but a patchwork. It is tempting to suggest that all tropical Africa ought to be unified under some sort of common international administration responsible to the United Nations; but it is more than doubtful whether such a system could at present work in practice. It may be necessary, now that European influence has made its impact in different national forms in different areas, for the process to go on for a time as it has begun, each territory winning its way towards self-government after a fashion based upon the habits of its alien governors. But, even if this necessity has to be accepted, there is plainly need for some degree of unification—for the formulation internationally of a charter of African rights which each European power must be pledged to observe, and not merely so pledged but obliged to report upon its stewardship to an international authority under U.N.O. which will be able to bring the pressure of world opinion to bear upon any defaulter. A faint adumbration of such an authority existed under the League of Nations, in the form of a Permanent Mandates Commission; but its reference did not extend beyond the mandated areas, and its powers were weak.

U.N.O., Trusteeship and Colonial Policy

The Charter of the United Nations Organisation includes two Chapters which deal with the administration by member-States of "non-self-governing territories" under their control. The first of these Chapters deals with such territories in general, and is applicable to all colonies, dependencies, and mandated territories, under whatever terms they are held. The other Chapter deals with 'Trusteeship'—a special status which can be given to any non-self-governing territory for which the State exercising political control over it draws up a 'Trusteeship Agreement' and secures for this agreement the approval of the U.N.O. General Assembly. 'Trusteeship,' under the U.N.O. Charter, is clearly intended to replace the old 'mandates' system of the League of Nations; but it is also given, potentially, a far wider range, for any State belonging to U.N.O. can propose a Trusteeship Agreement for any of its colonies or dependencies. The new system is therefore not confined to 'mandated' territories; but it is to be noted that there is no positive obligation upon any State to bring even its League Mandates under trusteeship—much less to apply the system to any of its colonies or dependencies not at present held under trust.

The drafting of these Chapters of the U.N.O. Charter gave rise

to considerable difficulties, and the attempt to apply them has already given rise to many more. When they were being drafted, two main difficulties arose. In the first place, were the colonial Powers to be committed, either in respect of their colonies generally or, more narrowly, in respect of territories brought under Trusteeship, to "independence" as the goal, or was the permanent continuance of colonial rule to be allowed? The general articles dealing with "non-self-governing" territories did commit the colonial Powers, in very broad terms, to administer them with a view to "the political, economic, social and educational advancement of the peoples concerned," and to the development of "self-government" of these peoples "according to the particular circumstances of each territory and its people and their various stages of advancement." This phraseology was very vague, and was deliberately drafted so as to make no mention of 'independence,' even as an ultimate goal. Moreover, even in the case of territories which were made subject to Trusteeship there was no commitment to 'independence' as the goal. All that was laid down was that such territories must be administered with a view to "their progressive development towards *self-government or independence*, as may be appropriate to the peculiar circumstances of each territory and its people and the freely expressed wishes o the people concerned, *and as may be provided by the terms of each trusteeship agreement.*" Thus, it was not only left entirely open to States not to bring their colonies or dependencies under trusteeship: even if they did they were under no obligation, except by their own voluntary act, to commit themselves to allowing these areas to become independent at any future time.

Nor was this all. It was clearly contemplated, though it was not explicitly laid down, that the former League Mandates should be brought under the U.N.O. Trusteeship system; but it was explicitly left open to States holding mandates to designate whole territories, or parts of them, as "strategic areas," and, wherever this was done, the effect of the Charter was to remove all powers of supervision out of the hands of the U.N.O. Assembly, or of the Trusteeship Council which was to be constituted under its auspices, and to transfer all these powers into the hands of the Security Council, dominated by the great military States.

The Trusteeship Council was not to come into existence until a certain number of individual Trusteeship Agreements had been drawn up and approved by the U.N.O. Assembly; and it could not actually be established until the end of 1946. By that time Trusteeship Agreements had been submitted and accepted for most of the old 'mandated territories' ; but not a single State had

proposed to bring any of its own colonies or dependencies under the trusteeship system. There were, moreover, highly significant exceptions even among the 'mandates.' One was Palestine—to be discussed in the next Chapter of this book. Another was South-West Africa, which the Union of South Africa was trying to annex outright. A third was the group of former Japanese mandated islands in the Pacific, which the United States was proposing to designate as 'strategic areas,' and to retain under its exclusive control. Nor did the Trusteeship Agreements that were submitted and accepted make any provision for securing the future independence of the territories concerned. Consequently, the discussions in the Trusteeship Committee of the U.N.O. Assembly in New York towards the end of 1946 developed into a series of unseemly wrangles, and, though they ended in the acceptance of enough Trusteeship Agreements to enable the Trusteeship Council to be brought into existence, this was achieved only in face of the opposition of the Soviet Union and of India, and of the Soviet Union's refusal to participate in the work of the Council. One main issue which arose at New York concerned the interpretation of certain words used in the Charter, which prescribed that all Trusteeship Agreements should be "agreed upon by the States directly concerned," but omitted to define this highly ambiguous phrase. These words were insisted on in the first instance by the United States; but at New York they were invoked by the Soviet Union, which pointed out that it was not a consenting party to the terms of the agreements that had been drawn up. The Soviet delegate also pointed out, somewhat disconcertingly, that the effect of transferring the 'strategic areas' from the Trusteeship Council to the Security Council would be to make all proceedings relating to them subject to the veto;[1] to which American spokesmen promptly, though unofficially, retorted that they proposed to hold on to their exclusive control of the strategic bases in question whatever anyone else said, or whatever might be the legal position under the United Nations Charter.

In short, the discussions of Trusteeship at the meetings of U.N.O. have been a singularly unedifying display of 'power politics,' and of ill omen for those who have ventured to hope for an advance towards a more international spirit in colonial administration. There is no sign at all that the ruling Governments are prepared to accept international judgment on their conduct in their imperial possessions, or to work together in administering them primarily in the interests of the peoples concerned.

[1] See pages 804ff and 1014ff.

The entire question of colonial empire is, indeed, under implicit debate in the world to-day. Although there has been no mass revolt of the colonial peoples, discontent has grown rapidly in almost every colonial area, and in most places, except the most primitive, some sort of nationalist movement under native leadership has begun to appear. There have been extensive strikes in the West Indies and in Mauritius, as well as on the African continent; and, as we have seen, the Japanese invasion has left behind it a strengthened anti-European feeling in most of the Asiatic colonial territories that were overrun. In areas remote from the actual fighting, war for the most part brought improved economic conditions, though there was in many cases a shortage of European goods that the inhabitants would have liked to buy. This relative and partial prosperity followed upon experiences of acute economic depression and insecurity during the period between the wars; and adversity and relative prosperity alike had the effect of increasing discontent and of stimulating nationalist feeling—or at any rate dislike for alien rule. Communist propaganda has been directed, wherever possible, to strengthening this anti-imperialist sentiment and to emphasising the contrast between the position of economically backward peoples in the Soviet Union and under imperialist-capitalist rule. The draining away of wealth from the subject countries to the capitalists of the investing countries has been stressed; and the Soviet Union's handling of the problem of nationalities has been extolled as showing how much the backward peoples stand to gain from throwing off the imperialist yoke. The effect has not been in most areas to bring powerful Communist Parties into being; but there has been a considerable infiltration of Communist ideas, and a strong reinforcement of nationalist and radical tendencies, above all where there had been before the war any considerable development of large-scale industries owned by foreign investors, or where the native producers believed that they were being cheated by foreign firms which controlled their access to the world market.

This spirit of revolt against foreign domination has been fostered in some degree by the half-hearted attempts made by some of the colonial administrations and by missionary enterprise to extend higher education; for, wherever an educated class comes into existence among a subject people, its members are apt to be faced with a double frustration. The members of the ruling nation in the colony do not readily accept them as social equals; and they find nearly all the higher posts to which their education leads them to aspire filled by members of the ruling nation. If they become numerous, they are apt to find themselves without jobs which

they regard as corresponding to their dignity; and this leads them to make jobs for themselves by seeking to become political leaders or organisers. The mainly literary character of the education which they get exaggerates this tendency; for few among them are trained to become technicians or to acquire any knowledge of the industrial arts. The foreign companies which operate the large-scale industries of the colonial areas get their higher staffs from their own countries, and seldom attempt to train natives for positions of higher technical or managerial status. Consequently, the educated men who become leaders of nationalist movements are seldom given any chance of acquiring administrative experience.

These conditions react on the attitudes of the white colonial officials, merchants, and business managers. Ready enough in any case to defend their positions of privilege and superiority, most of the members of these groups easily convince themselves that the natives are incapable of filling really responsible posts, because their speeches and writings reveal their lack of experience and knowledge of the working of political and economic institutions. Accordingly, they either resist all attempts to improve the status and to widen the opportunities of the native 'intellectuals,' or, if they have progressive inclinations, are yet so impressed by the need for caution and for a long period of tutelage as to favour a pace of advance towards self-government that is much too slow to satisfy the more active spirits, who are thus forced into resentful hostility. Moreover, even the white administrators who are desirous of following speedier progressive policies are faced with a serious dilemma. The reforms they wish to see introduced, for the improvement of conditions of health and welfare and for the widening of economic opportunity, will cost a great deal of money; and the taxable capacity of these poor colonial communities is exceedingly low. Attempts to place any considerable tax burdens on white settlers or on foreign companies are strongly resisted; but any form of higher taxation that falls mainly on the natives will worsen the immediate position of already impoverished and debt-ridden households, even if it is calculated to confer benefits in the long run. The consequence is that progress both with educational and welfare services and with economic developments—such as road-making and irrigation, reafforestation and the stamping out of insect pests and plant and animal diseases—is exceedingly slow. Indeed, it has often been slower than the advance of the destructive tendencies which it is designed to combat.

Thus, even where colonial administrators are actuated largely

by considerations of native welfare, the leaders of native opinion are apt to be exasperated by the little progress that is actually made, and to accuse of hypocrisy the administrators who appear to them to be making a great parade of virtuous intentions in order to hide the meagreness of their actual proposals and achievements. Nor can it be denied that the proposals and, still more, the achievements have usually been meagre; for hitherto the home Governments have usually been prepared to spend little or nothing on the colonies, and have insisted that colonial reform must pay its own way out of the proceeds of colonial taxation. After all, the large sums which are taken out of the colonies as profits to investors or as salaries and pensions to white officials have to a large extent accrued to the exchequers of the ruling countries: so that, from the standpoint of the home Governments, anything spent on the colonies has been a charge on the home country. The awakened native looks at the question from a different angle. He sees that a large part of the national income of his country is being paid away to Englishmen or to Frenchmen or to Dutchmen; and he feels that England, or France, or Holland ought to pay this money back in order to help his people to live better and to advance in the productive arts. The home Government, however, has a double reluctance to shoulder any such obligation—first, because it would mean higher taxation, and secondly, because it would strain the balance of payments where colonial exports are part of the means whereby the home country squares its foreign trade accounts.

The 'Colour-bar' and the Colonial Problem

In this account of the factors making for angry nationalism among the leaders of colonial opinion I have so far said nothing of the 'colour-bar,' which in the British colonies is often regarded as the principal source of trouble. I have said nothing of it because, though it can obviously help to acerbate feelings of frustration, I see no sign that such feelings cannot be aroused to an equal extent even where the 'colour-bar' does not exist, or is much less strict. The French, it is often said, have a much less extreme sense of colour difference than the British; but the attitude of the French official, demanding the last ounce of recognition of his official dignity, can be just as infuriating as that of a British official who does not try to conceal his sense of belonging to a superior race. Moreover, where there is much intermarriage of Europeans and Asiatics, as in Java, the effect may be to create a class of part-Europeans who, in defending their privileged status as 'white men,' go beyond the attitudes characteristic of pure

whites in areas where a more definite colour-bar exists.

In face of these phenomena, the colonial problem takes on a look of insolubility. It is indeed soluble only in one or the other of two ways. The first way, that of native revolt, is practicable only where, for one reason or another, the power and resources of the ruling country are so diminished that it can no longer put out the energy needed for keeping control: so that, despite an unquestionable superiority of military force, it cannot in fact dare to use this force for fear of taking on obligations which will disastrously sap its strength at home. The second way—that of the effective and parallel development of self-governing institutions and economic productivity, in such ways as to afford adequate all-round outlets for native ambitions and capabilities—is practicable only with the aid of large capital expenditure, on which can be expected at most a low, and in many cases not any, economic return to the providers of the capital.

The first of these ways, widespread native revolt, so far from improving native conditions in the short run, is certain to make them worse, whether the revolts succeed or fail. If they fail, there will be heavy economic losses, falling on the colonial peoples as well as on the capitalists and taxpayers of the imperial countries: if they succeed, the colonial countries will have to manage their affairs without the aid of foreign capital, of which they stand greatly in need, and with a calamitous lack of experts in both the business and the political field.

Indeed, the transition to colonial freedom and prosperity can be made without acute suffering only if foreign capital can be made available on terms that involve not exploitation, but the recognition of a world task involving the honour of the United Nations as a whole. I have said in a previous chapter that the task of our century is to spread the benefits of modern science among the colonial peoples, in such a way as to stamp out unnecessary disease, to introduce modern technology, and thereby to raise native productivity nearer to the standards of the West, and to develop education as a means both to economic and social advancement and to political independence and democratic self-government. These are large tasks, which cannot be carried through without large expenses in the way of capital investment. This investment, from the purely economic aspect, is capable of yielding large returns; but these returns will for the most part accrue not in the form of direct profits on the investments made, but in a general diffusion of well-being through the enlargement of world income, the expansion of international trade, and the creation of a feeling of confidence and optimism in place of the

existing sentiments of frustration and mistrust. The prosperity of the advanced countries depends fundamentally on the prosperity of those which are now backward. The time is past when a few countries could enrich themselves by commerce and investment in a world for the most part still in the grip of primary poverty. The twentieth century can enrich itself, not by predatory imperialism or economic warfare, but only by co-operation on a world-wide scale in making the best of its common resources of materials, of man-power, and, last but not least, of human educability and of the decency which is in nearly all of us when we are not too frightened one of another to give it vent.

NOTE: This chapter had been written before, in February, 1947, the British Government announced its approval of the plan, designed both to relieve the shortage of supplies of fats and to promote development in East Africa, for growing ground nuts on an area of over three million acres of mainly uncultivated land in Tanganyika, Kenya, and Northern Rhodesia. The plan provides for 107 units of cultivation, each of 30,000 acres—80 in Tanganyika, 17 in Northern Rhodesia, and 10 in Kenya. The development is to take five years, and is to be based on a high degree of mechanisation. It will employ, when it is fully in operation, about 750 Europeans and 32,000 Africans, and employment will be greater than this while the land is being cleared. Special measures are to be taken to prevent soil-erosion and to ensure good working conditions. The project is to be in the hands of a Public Corporation under government ownership, but is to be managed in the initial stages by the United Africa Company, which devised the original scheme. The cost is estimated at about £23 millions, *plus* another £2,500,000 for railway, road and port construction. Later on, it is intended to transfer ownership to the Colonial Governments concerned; and "eventually it is hoped that the undertaking will be controlled by the people themselves, possibly on a Co-operative basis." This large project, if competently executed, may be the beginning of a revolution in agricultural technique in Africa, and of a rise in standards of living that is out of the question without such a revolution. Its ultimate importance lies less in the very valuable contribution that it can make to the world supply of oils and fats than in its potential influence on methods of cultivation and on agricultural organisation over a large part of Tropical Africa.

CHAPTER X

THE NEAR AND MIDDLE EAST AND THE PROBLEM OF PALESTINE

SO FAR, MOST OF THE world's oil has come from America, and the United States, despite its enormous and rapidly growing domestic consumption, has been the greatest exporter as well as the greatest producer. It has, however, been for some time apparent that American output could not for long both keep pace with the growth of home demand and supply the increasing needs

WORLD OUTPUT OF CRUDE PETROLEUM

	1921	*1929*	*1939*	*1940*	*1941*	*1942*	*1943*	*1944*	*1945*
United States.	64·7	138·2	170·9	182·7	189·5	187·4	203·4	226·7	231·[illegible]
Soviet Union.	4·0	12·3	30·3	30·3	34·0	31·7	35·6	—	—
Venezuela .	0·2	19·8	30·5	27·4	33·4	21·5	26·0	37·0	46·[illegible]
Persia . .	2·2	5·8	10·3	9·3	8·0	9·9	10·3	13·5	17·[illegible]
Mexico . .	29·0	6·7	6·5	6·7	6·6	5·3	5·3	5·8	6·[illegible]
Roumania .	1·2	4·3	6·2	5·8	5·6	5·7	5·3	3·5	4·[illegible]
Dutch E. Indies	2·4	4·3	7·9	7·9	6·9	—	—	—	—
Iraq . .	—	0·1	3·8	2·4	1·4	2·6	3·3	—	—
Trinidad .	0·3	1·2	2·7	2·8	3·0	3·0	3·1	—	—
Colombia .	—	2·9	3·4	3·7	3·5	1·5	1·9	3·2	3·[illegible]
Argentine .	0·3	1·4	2·7	2·9	3·2	3·4	3·5	3·5	3·[illegible]
Burma . .	1·1	1·1	1·1	1·1	1·1	—	—	—	—
Canada . .	—	0·1	1·0	1·1	1·3	1·3	1·3	1·3	1·1
Peru . .	0·5	1·8	1·8	1·6	1·6	1·8	1·9	1·9	1·[illegible]
Egypt . .	0·2	0·3	0·7	0·9	1·2	1·2	1·3	—	—
Saudi Arabia and Bahrein	—	—	1·5	1·7	1·7	1·7	1·7	—	—
British Borneo	0·2	0·8	0·9	0·9	0·9	—	—	—	—
Poland . .	0·7	0·7	0·5	—	—	—	0·3	—	—
Germany .	—	0·1	0·6	—	—	—	0·9	—	—
Austria . .	—	—	0·1	—	0·5	0·7	1·4	—	—
Total (including other countries)	108	206	285	293	305	285	312	—	—

of other markets; and there has been for several decades a struggle of rising intensity between rival oil interests to get command of promising new sources of supply. In 1939, out of a total world production of about 285 million metric tons of crude petroleum, 171 millions came from the United States, and by 1945 United States output had risen to about 230 millions. The two next largest producing areas in 1939 were Venezuela and the Soviet Union,

each with an output of about 30 million metric tons. Venezuelan output had risen further by 1945 to about 46 millions, whereas the Soviet oil wells, heavily damaged in the course of the Nazi invasion, were still a long way short of their pre-war production, and the new post-war Five Year Plan of the Soviet Union provided only for a gradual and modest rate of recovery. There appeared to be no doubt that, in default of fresh sources of supply, the Soviet Union would be seriously short of oil for supplying its own internal needs in time of peace—and, of course, shorter still if it had to provide against the possibility of another World War.

In comparison with these three countries, no other had more than a modest oil output in 1939. The Persian oilfields, under British control, produced about 10 million metric tons. The Dutch Indies produced 8 millions, Mexico and Roumania each between 6 and 7 millions, Iraq and Colombia each between 3 and 4 millions, Trinidad and the Argentine between 2 and 3 millions, Peru, Burma and Bahrein (in the Arabian Gulf) each over 1 million, and Canada and British Borneo each nearly a million. Poland, Germany, Egypt and Saudi Arabia exceeded half a million, and Ecuador and India a quarter of a million. In all the Americas produced nearly 220 million metric tons, out of a world production of 285 millions. All Asiatic sources outside the Soviet Union produced only 26 million metric tons.

During the war, the Japanese conquests in the East and the closing of the Mediterranean route meant that supplies for the Allies on the Western Front had to come almost entirely from America. There was, however, an attempt at intensive exploitation of such other sources as remained open. Persian output rose in 1945 to 17 million metric tons, and still further in 1946, and in Saudi Arabia, where a great newly discovered oilfield was just beginning to be opened up, output was more than trebled between 1939 and 1943, and has risen much further since. It was coming to be realised more and more that the oilfields of the Near and Middle East were destined to become one of the main sources of world supply, and the greatest of all sources of exports in face of the increasing absorption of its own production by the United States.

The Politics of Oil

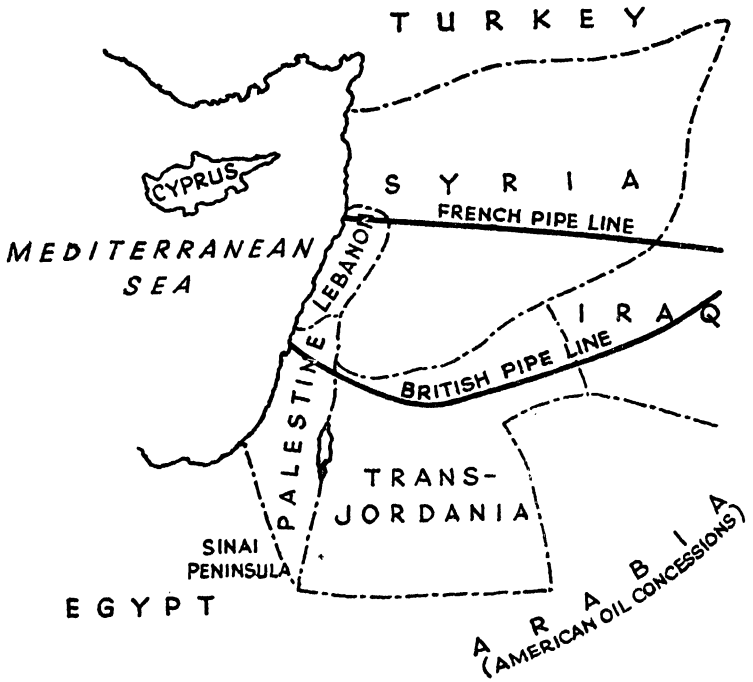
Thus the struggle for oil comes to be the dominating factor in the economico-political situation throughout the area that stretches from the Eastern Mediterranean to Persia and, beyond Persia, to Burma, Borneo, and the Dutch Indies. The oil of this region is indispensable to the countries which aim at advanced

modern techniques in peace or war. It is not indispensable to the United States; but the American oil companies, which have built up a worldwide supply network for the export of American oil, are now envisaging the loss of their world markets unless they can get command of large resources of oil outside the United States, and even outside the American continent. Hence the agreement which has given them an exclusive concession for the exploitation of the oil resources of Saudi Arabia—believed to be the largest in the world—and hence too the agreement under which American companies are to buy large and increasing quantities of the unrefined output of the Anglo-Iranian oilfield, for refining and distribution under the auspices, and for the profit, of the American concerns.

The Kirkuk oilfield, in Iraq, is already connected with the Mediterranean by a pipe-line which, dividing into two branches, reaches the coast at Tripoli and at Haifa. This oilfield is owned, in equal shares, by the Anglo-Iranian, the Royal Dutch-Shell, an American group of companies, and a French group; and the French are annoyed at being left out of the agreement between the British and the Americans for joint exploitation of the Iranian supplies. In Northern Persia, there has been for years past a struggle for concessions between the Americans and the Soviet Union—a struggle which goes far towards explaining the course of Persian politics and the coincidence in time between increased American-British 'toughness' towards the Soviet Union and the overthrow of the pro-Soviet Nationalist Government of Persian Azerbaijan. The recent American plans, of which the agreement between the American companies and the Anglo-Iranian Oil Company form part, include projects for the construction of two new pipe-lines—one, across Southern Iraq and Northern Arabia and Transjordania from the South Persian oilfields to Haifa in Palestine, and the other, further south, from the Bahrein and Saudi Arabian fields through Arabia and Transjordania to a point as yet not finally determined, on the Palestine coast.

If these projects are carried into effect, Palestine will become the principal centre for the shipment of the increasingly important oil supplies of the Middle East, and the Americans, as the principal concession-holders and as the main suppliers of capital for extraction, for transmission by pipe-line, and for refining, will have a large vested interest in the politics of the Near and Middle East. The British will be, in these matters, the partners, willing or reluctant, of American capitalism; and the British Government, which is a large shareholder in the Anglo-Iranian Oil Company and is represented by government-appointed

directors on its board, will be directly involved in this partnership. The Soviet Union, for its part, will be cut off from any share in the exploitation of the Arabian, Iraq, and South Persian oilfields, and may be denied, by the manœuvres of the oil companies and



MAP OF PALESTINE AND THE NEIGHBOURING AREAS

of the Governments behind them, the chance of developing, or at any rate of developing exclusively, the potentialities of the still largely unknown oil-bearing district of Northern Persia.

Oil and Politics in the Near and Middle East

Under these circumstances, for as long as world politics continue to be dominated by the possibility of war between the United States and the Soviet Union, there can be no chance at all of any stable settlement of affairs in the Near and Middle East. The oil concerns, even if they give better conditions of employment for local labour than would exist in their absence, will evidently support those political forces in the countries concerned

which they deem likely to be most favourable to their requirements: and the Soviet Union, on its side, not being strong enough to maintain its claims by direct assertion against the combined Anglo-American front, will no less evidently do what it dares in the way of stirring up trouble by spreading Communist propaganda among the industrial workers employed in the oilfields and, where it can, among the peasants and poorer inhabitants generally. This propaganda may not be very successful in the short run; for at present the emphasis is on an Arab solidarity uniting all classes in a demand for political independence, and the existence of the Palestinian problem and of the dispute between Egypt and Great Britain over the control of the Sudan, as well as the uncertain position of the Arab population in the French African empire, serves to focus attention on political rather than on economic grievances. If, however, American oil interests, working in association with British interests, establish a virtually complete control of the mineral resources of the Middle East, and of the lines of distribution leading to the Mediterranean, Arab and Iranian nationalist feeling among the masses will be bound in the long run to turn largely to the Soviet Union.

In the meantime, the United States holds the whip hand economically, but it has been politically in a weaker position, because American politicians have not dared too openly to base their intervention in the Near and Middle East, or their interest in the Palestinian problem, on the oily foundation upon which it largely rests. It does, however, admirably suit the book of the oil interests that political relations between the United States and the Soviet Union shall be bad, because, the worse they are, the more can American intervention be represented as a necessary preventive against the spread of Communist influence, rather than as a support of the oil-imperialism of the great capitalist concerns. American intervention in Greece and Turkey is closely related to the interests of the American oil companies in the Near and Middle East.

In all this manœuvring, Great Britain is being dragged along partly by the British oil concerns which want protection for their interests in the Middle East, but mainly by the knowledge that the British position as a whole in the Eastern Mediterranean and in the Near and Middle East is entirely untenable without American support. Many American progressives denounce the policy that is being followed as one of unwarrantable support for "British Imperialism," without understanding that "British Imperialism" has in reality become a façade behind which American capitalism is entrenching itself in a world power which

Great Britain is no longer strong enough to sustain, even if it had the will. The British Government, despite its Socialism, acquiesces in the policy of playing the game of the Americans because it does not see how to do without them, and is in no wise prepared to attempt the admittedly difficult alternative of coming to terms with the Soviet Union. The leaders of the Soviet Union, seeing the weakness of the British position and regarding the British Labour Government as a great deal more willingly 'imperialist' than most of its members actually are, feel themselves the victims of an American-British capitalist *bloc* which is determined to shut them out from every source of vital supplies that can be kept beyond their reach; and the foreign policy of Mr. Attlee and Mr. Bevin, whatever their intentions, reinforces these suspicions.

All this time the military leaders are insisting—and here I mean the Americans as well as the British—that there must be adequate strategic bases in the Eastern Mediterranean and in the Near East, not so much to keep the Mediterranean open as a highway in time of war as to prevent the Soviet Union from descending on the oil and other resources of the Near and Middle Eastern countries. That is the explanation of the frenzied search for adequate bases elsewhere in face of the necessity of evacuating Egypt. That explains the American desire that Cyprus should be handed over to Greece—i.e. to American control. That explains the otherwise inexplicable policy of the Labour Government in Greece; and that underlies the ambiguities and apparent imbecilities of the handling of the problem of Palestine, which is not in truth only the problem of Jew-Arab relations, but pre-eminently the problem of world relations and power politics in what has become the key area in the struggle between rival social systems.

Egypt and the Sudan

The strongest of the Arab States is Egypt; and Egypt, while nominally independent, has been in fact for many years past under British military control. Cairo was the main military centre throughout the war for operations in the Near and Middle East, and remains as a centre to-day; for though the British Government has pledged itself to evacuate Egyptian territory, the evacuation is proceeding only by stages, and large British forces still remain. All through 1946 negotiations were going on for a new treaty between Great Britain and Egypt; but their progress was far from smooth. The defence of Egypt, and the conduct of war operations from Egyptian bases played a vital part in the strategy of the second World War; and the military leaders were insistent

that, even if the country had to be evacuated for political reasons, the right to re-occupy it at once in the event of war must be preserved, and adequate bases must be maintained near at hand to ensure the successful defence of the entire region. This, as we shall see, was one of the factors bedevilling the problem of Palestine; but it also stood in the way of a treaty acceptable to Egyptian nationalist sentiment. The successive Egyptian Governments with which the British endeavoured to conclude a treaty did not in fact represent the main body of Egyptian opinion; for the Wafdist Nationalist Party, the largest in the country, was not represented either in the Government or in the Parliament to which it was nominally responsible. But even 'palace' Governments could not venture to agree to terms which nationalist sentiment would be certain to repudiate; and the negotiations were further complicated by the vexed question of the Sudan. It was, however, stated, when the Egyptian Government broke off negotiations in January, 1947, that, except for the question of the Sudan, complete agreement had been reached.

Legally, the Sudan is Egyptian territory, under final Egyptian sovereignty, but subject to a 'Condominium' of Great Britain and Egypt which has meant in practice that it has been ruled entirely by British administrators. The Egyptians have long resented their exclusion from administrative posts, and have claimed that at the least the Condominium ought to be made a reality. In recent years there has been a growing nationalist demand for the entire transfer of the Sudan to Egyptian control. Great Britain does not dispute that the Sudan is under Egyptian sovereignty; but the British administration has pledged itself to allow the Sudanese to decide for themselves, when the time comes to end the existing system, whether to come under Egyptian rule or to declare for independence. At one point in the negotiations of 1946 great confusion arose when the then Egyptian Prime Minister, Sidky Pasha, declared after a visit to London that he had secured from Mr. Bevin a pledge to hand the Sudan over to Egypt's entire sovereignty, whereas the Governor of the Sudan reiterated a promise to the Sudanese that they should not be handed over to Egyptian rule save with their own consent. The draft agreement between Mr. Bevin and Sidky Pasha was not published at the time, and it remained uncertain what had really been said; but the British Government stated that, while it did not dispute the fact of Egyptian sovereignty over the Sudan, it had given no promise to Sidky that was inconsistent with what it had promised to the Sudanese. When the wording of the draft was finally disclosed, it appeared that it was ambiguous, so that the two parties

had been able to interpret it in quite different senses. The Egyptians maintained that the promise to the Sudanese, that, when the time came, they should be free to decide for or against self-government did not extend beyond self-government under the Egyptian Crown; whereas the British argued that they could not refuse the Sudanese the right, when the Condominium ended, to declare for complete independence.

In the Sudan itself, opinion is divided. Political organisation is not highly developed; and there is bitter conflict between two rival religious factions, each led by a powerful personality. The larger of the two main parties, the *Ashigga*, is hostile to British rule and favours the Egyptian connection, subject to Sudanese home rule, whereas its rival, the *Umma*, stands for complete independence of both Great Britain and Egypt. Behind these parties stand the rival religious leaders, Sir Ali el Mirghani and Sir Abdel el Mahdi. Neither the British nor the Egyptians are prepared to concede at present either full self-government or independence; and the Egyptians are hostile to independence even in the long run, partly for ordinary imperialist reasons, and partly because they desire to have complete control of the Nile Valley and its waters, and to oust the British from their control of the important cotton-growing area of the Sudan. For the British, the evacuation of Egypt would give the Sudan an additional military importance; and there are of course also substantial economic interests involved.

These complications explain why Mr. Attlee's categorical promise to evacuate Egypt under a new Anglo-Egyptian Treaty, so far from leading to more cordial relations between Great Britain and the Egyptians, was followed by an acrimonious dispute which was left at the beginning of 1947 entirely unsolved. There had been, meanwhile, a very rapid growth of nationalist movements among the Egyptians, including the peasants, who, hitherto largely inarticulate, have come under the influence of a new movement of religious nationalism. Egypt is the natural centre for the increasing activities of the Arab League, which, linking together the whole Arab world in a common endeavour to assert itself as a force in world politics, has found in the great power rivalries in the Near and Middle East, and in the weakening of both French and British imperial power, as well as in the vacillations of British policy in Palestine, the means of arousing strong popular sentiments in every Arab country. For the moment, the Palestinian problem occupies the central point of tension, and of attention from world opinion; but the Egyptian crisis is only second to it, and may at any moment, unless a settlement can be

reached, turn into a major international issue. In January, 1947, the Egyptian Government of Nokrashy Pasha, after breaking off the negotiations for a new Anglo-Egyptian Treaty, announced its intention of referring the questions in dispute with Great Britain to U.N.O., without making clear under which clause of the U.N.O. Charter it was intending to proceed.

The Problem of Palestine

The cry goes up on all hands that, however the problem of Palestine is solved, the solution ought to be 'final.' The *Economist* wrote, in an article on the subject on August 3rd, 1946, "a new and influential body of people have come to see that, whatever else a plan for Palestine presents, it must offer a reasonable hope of securing a *final* settlement." Quite so, if such a settlement be possible; but the one thing plain in a situation of exceeding obscurity is that, as long as war remains open as a means of deciding human conflicts, no settlement in Palestine can possibly be final, or at least that the only finality practicable under such conditions would need to be based on the complete extermination of the Palestine Jews. If the Jews now in Palestine were wiped out, and the whole country reverted to Arab possession, that settlement might be final; for the Jews from outside Palestine would probably be powerless again to raise the issue of a Jewish National State, or even of a Jewish National Home, in the Holy Land. If, however, that solution is to be ruled out, no possibility of a *final* solution remains, for the simple reason that a renewed outbreak of war between the Great Powers—or even a complete breakdown of relations between them—might obviously upset any solution attempted in the meantime, and that accordingly either Jews or Arabs or both would inevitably refuse to accept as final any solution in which they might be compelled to acquiesce against their wills.

The hard core of the Palestinian problem is that the territory of Palestine lies right in the middle of a group of Arab States. These States, long accustomed to subjection, have been able of late to assert their independence, and have come together into an Arab League which is a point of focus for strong nationalist sentiment. To the north of Palestine lie the Republics of Syria and the Lebanon, newly escaped from French rule. To the east lies the largely desert area of Transjordania, recently recognised by Great Britain, the former mandatory power, as an independent Arab kingdom. To the south lie the Arab kingdoms of Egypt and Saudi Arabia. As we have seen, the latter has recently become an important factor in world politics because of the discovery beneath

its soil of what is believed to be the world's greatest oilfield, for the exploitation of which American companies have secured concessions extending over a vast area. The oil question reacts seriously on the problem of Palestine because the natural outlet for pipe-lines to carry oil to the Mediterranean is across Palestine, which has thus become important to American as well as to British politicians for economic as well as for political reasons. Last, but not least important, to the west of Palestine lies the Mediterranean Sea, whose eastern part forms an important link in Great Britain's communications with Asia and, even apart from oil, an area of immense strategic importance in the calculations of all statesmen and military authorities who are framing policies with an eye to the possibility of another war.

If the Jews were not, as they are, a highly civilised people with as strong national cultural and religious traditions as any in the world: if they were not, besides this, for the most part a homeless people with their leading personalities scattered over the face of the earth and holding positions of high importance and influence in many States: if they were merely a handful of Levantine tribesmen who had survived after many centuries of Arab conquest and of Turkish rule—it would be natural to suppose that the development of Arab nationalism would ensure the conversion of Palestine into a State under Arab rule, with Jews living there at best on the terms on which many Jews—the Sephardic Jews—did live there, century after century, under the Turks. But the present Jewish population of Palestine includes, besides the old Jewish inhabitants with their relatively primitive standards of culture, the immigrant Jews who have settled there mainly since the establishment of the new State, under British mandate, after the first World War. These settlers are by no means all of high cultural standards, or used to a high standard of living. Many of them have come from Eastern Europe, and had been used to hard conditions of life. But they are under advanced and cultured leadership and have settled in Palestine under the auspices of world Jewry, which has supplied them with capital to develop their settlements along advanced lines and has enabled them, on the basis of their high national capacity, to create for themselves standards of living a long way above those of the Arab population in the midst of which they have settled down. These Jews have, to a large extent, established themselves on land acquired from Arab owners who had previously made little of it, in Jewish villages founded largely on co-operative principles and carrying on a community life quite apart from that of the Arab population. A substantial number are in Tel-Aviv—a handsome modern town

which they have created—and in Haifa, where they have built with Arab as well as Jewish labour a well-equipped modern port. Many Jews have maintained—and Jewish Socialists have maintained consistently—that the problem of the living together of the two peoples is soluble only by their learning to work together under equal conditions, and that accordingly it is indispensable to raise Arab pay and Arab quality of workmanship to a level with Jewish pay and Jewish workmanship. But this has not happened: it demands both time and a deliberate policy of Arab education—to say nothing of a political environment in which stability would be guaranteed. Instead, the two races have for the most part lived their own separate lives, at widely different standards and on a basis of widely different cultures; and both have lived under an alien rule which has meant that neither could feel any sense of responsibility towards the other, or for avoiding action which might make co-operation harder. Each has been trying, most naturally, to put the maximum of pressure in its own interest upon the alien ruling power; and every disturbance of world conditions has made for more intense pressure, because it has aroused hopes of fishing successfully in troubled waters, and has weakened the resources at the immediate disposal of the mandatory power.

The Population of Palestine

Most Jews, as well as most Arabs, do not live in Palestine. The total population of Palestine grew from 750,000 in 1922 to 1,765,000 in 1944. The number of Jews rose over the same period from 84,000 to 550,000—from 13 to 31 per cent. of the total. This increase in the Jewish population was due mainly to immigration; for the Jewish inhabitants have a relatively low rate of natural increase. Between 1941 and 1944 the Jewish annual rate of natural increase was 1·8 per cent., whereas the Arab rate was over 3 per cent., and was rising sharply. From 1922 to 1925 the comparable rates were 2 per cent. for Jews, and 2·3 per cent. for Palestinian Arabs. Thus, the Jewish percentage of the population has risen because of immigration; but in the absence of further immigration it would at once begin to fall off. If the Arabs could stop Jewish immigration, they could thereby ensure a rapidly increasing numerical preponderance in Palestinian society.

World Jewry and the Arab World

The great majority of Jews are not in Palestine, but in Europe or in the United States. There are in the United States at least five million Jews—nearly ten times as many as there are in

Palestine. There are about 2,665,000 Jews in the Soviet Union, about 1,200,000 in the rest of continental Europe, and about 350,000 in the United Kingdom. The total number of Jews in Europe has been reduced from nearly ten millions in 1939 to about 4,225,000 in 1946—so terribly have the Jews in Europe suffered under the impact of anti-Semitism and war. The survivors include, according to the estimate of the Anglo-American Committee of 1946, no fewer than 391,000 refugees and displaced persons; and the pressure of these unfortunates to find a new home, if possible in Palestine, gives the Palestinian problem its appalling urgency. Their claims are pressed by the five million Jews in the United States; for this body of opinion, too weak to secure the opening to them of the doors of the United States, is strong enough to influence the American Government to urge other countries to do something for them—and in particular to press Great Britain to admit a large number of them to Palestine. That is one side of the picture.

The other side is the Arab resistance to immigration. This is not simply the resistance of the Arabs in Palestine. It is also the resistance of the entire Arab League, which has behind it the power to create acute disturbance over the whole area of the Near and Middle East and in Africa right along the Mediterranean coast to Algeria and Morocco. Any disturbance of Arab feeling directly affects France as well as Great Britain; for it threatens the French Empire in Northern Africa, and the French, having been driven from Syria and the Lebanon, are highly sensitive about their standing in what remains of their colonial possessions. For the British, a policy of friendship with the Arab States of the Middle East has hitherto been regarded as indispensable in the interests of British Empire communications, and has also been pursued because of the fear that relations with the Indian Moslems would be worsened by any rupture between Great Britain and any part of the Moslem world.

Palestine a World Problem

Thus, the problem of Palestine cannot be localised. It is by its very nature a world problem, entangled with international relations at many points, and with endless repercussions on Great Britain's relations with other countries. Never was there so intractable and inconvenient a mandate as that of Palestine—even if the complications had not been made infinitely worse by Great Britain's past action in making inconsistent and irreconcilable promises to Jews and Arabs before the mandate was established. For there is no doubt that the Balfour Declaration of 1917 led the

Jews to hope for a 'National Home' in Palestine that would be in effect a Jewish State, or that British promises of Arab independence were couched in terms which led the Arabs to regard Palestine as falling within their territorial range. The full inconsistency of these promises appeared only gradually: indeed, the full effect was visible only when the question of Jewish immigration changed its character because of the development of anti-Semitism in Europe. Only when Hitler had set forth on his 'crusade' of extermination against the Jews in Europe did the pressure to get to Palestine come to extend to literally millions of Jews who could see no hope of being suffered to live at all, or at any rate to live save under conditions of appalling humiliation, elsewhere.

The Economics of Immigration

Thus, the contemporary setting of the problem is that there are 391,000 displaced and refugee Jews looking for a new home, besides many more who would escape if they could from their uneasy lodgment in Europe. Even if there were no political obstacles in the way, the settlement of any considerable proportion of these unfortunates in Palestine would be a matter of great difficulty; for they could not be settled there, so as to have the possibilities of a tolerable life, without the expenditure of a very large amount of capital. It has taken more than twenty years of effort to settle in Palestine about 300,000 Jews at most, with all the aid that Jews all over the world have been able to offer towards the capital costs involved. If anything approaching the 100,000 Jewish immigrants whose immediate admission to Palestine was influentially recommended in 1946 were actually to be admitted, there would have to be more than private help in supplying the capital that would be needed. Nor could the capital be supplied wholly or mainly from British sources. If the United States meant seriously its demand that 100,000 Jews should be allowed into Palestine, it should in sheer logic have coupled its advocacy with an offer to share not merely in the costs of transporting the migrants to their new homes, but also in the capital costs of establishing them there under satisfactory economic conditions.

Even if capital could be made available, the successful establishment of a large number of additional settlers in Palestine would be possible only if foreign markets could be found for a considerably increased quantity of Palestinian products. Palestine is a small country—about the size of Wales—with scanty raw material resources and only a small area of fertile land. Much of it is arid,

especially in the south, and even in the north much of the interior is mountainous. The main fertile area lies along the sea coast, though there are fertile upland valleys in the interior. During the war years, when Palestine became a great troop centre and supply base for British and other Allied forces, there was a practically unlimited market for local products, and imports were mainly cared for by the trading agencies set up for war purposes. Under conditions of peace, Palestinian ability to support a larger population depends greatly on the state of world markets and on the existence of relations favourable to trade with neighbouring countries. A slump in world markets, coinciding with antagonistic relations with the neighbouring Arab States, could place the Palestinian economy in an exceedingly awkward predicament, in view of its great dependence on foreign trade for the means of life. Nevertheless, the settlers already there have so good a record of adaptation to the conditions in which they have been placed that it seems beyond question that a considerably larger Jewish population could live there at a reasonable standard if they could rely on favourable marketing outlets for the fruits of their industry.

The Politics of Immigration

The main obstacles, then, to further Jewish immigration must be regarded as political rather than economic, though the conditions of economic success need to be carefully noted and taken into account in any settlement. Politically, the obstacle is that the Arabs regard Palestine, which they have occupied for centuries, as their country, and the continuance of Jewish immigration as threatening to turn it into a Jewish National State, in which Arabs would become hewers of wood and drawers of water to a Jewish ruling group. There is plainly no way at all, in face of the growth of Arab national feeling, of altering this attitude by any sort of persuasion. It may be possible to show that the presence of the Jewish immigrants has improved the economic conditions of Arab peasants and labourers and has put money into the pockets of Arab landowners who had done nothing to develop the land until the Jews came. Such demonstrations will not at all disarm the opposition of the Arab sheiks and landowners, who do not want the standards of living of the Arab masses to be improved in any way that will weaken their own power; nor will it convince the Arab masses, who dislike the spectacle of the Jews settling among them at higher standards of skill and culture and taking on the more lucrative positions in the country. Arab hostility to *any* Jewish immigration is to be expected, and nothing that can be done will remove it.

Under these circumstances, no plan that involves a further infiltration of Jewish settlers into a mixed State can possibly succeed. Any such development is bound to involve continuous tension and the continuance of an alien government keeping the peace by a display of force. It is quite inconsistent with any advance towards self-government by Arabs and Jews working in friendly partnership. Nor can such a settlement have any sort of finality. It would leave the two sections of the population to manœuvre continually against each other for advantage, and against the ruling power; and it would leave each of them to be cheered on by the majority of their respective compatriots outside Palestine.

Partition, False and Genuine

The solution most recently advanced by the British Government in the summer of 1946 held out no better prospects. Partition would have some sense if it divided Palestine into two distinct States, one under Jewish and the other under Arab government, and if it left these two States thereafter to face their own problems and to settle them, within very wide limits, as they thought best. There is no hope at all in a plan of partition that would concede to the separate Arab and Jewish areas no more than local or provincial powers, and would reserve in the hands of an alien central government the key powers, and above all else the control of immigration. The power of all powers that the Jews in Palestine must have, if they are to be given any real freedom, is the right to control entry from outside into the area assigned to them. If this area were small—as it would in all the circumstances have to be—its power to absorb immigrants would also be small. But the restriction on immigration would then come from the Jews themselves, and would be recognised as proceeding from causes beyond anyone's power to alter. It would not be possible, as it is now, to blame the alien ruling power for not doing what simply cannot be done, as well as for not doing what could be done if there were no political obstacles in the way.

Palestine as a Military Base

The plan of partition without any concession of real power to the partitioned groups would be bad enough, if this were all. It is, however, by no means all. Under the scheme to which I am referring, it was proposed to assign the large and largely arid district of Southern Palestine to neither Jew nor Arab control, but to continue foreign rule, nominally with a view to possible partition at some time in the future, but actually, as everyone knew

perfectly well, because Great Britain was engaged in establishing there a great military base, to replace the area previously occupied in Egypt, and because military opinion regarded the retention of this base as an integral part of the strategic system of the Eastern Mediterranean. Nor is it possible to dissociate the attempt to retain military control in Palestine, or the American interest in the Palestinian problem, from the politics of oil or from the projected construction of new pipe-lines across the country from the oilfields of Persia and Arabia. Officially, nothing was said about such unsavoury matters as these by either British or American spokesmen; but, as far as I am aware, nobody disputes the facts.

It cannot be stated too strongly that the use of Palestine as a military base is entirely inconsistent with the terms of 'trusteeship' on which British statesmen profess their intention of holding Palestine, as well as with any workable solution of the Palestine problem. It is very much to be hoped that, if any proposal of this sort is ever put before U.N.O., it will be ignominiously rejected, and that Great Britain will be told to clear its military establishments, beyond those necessary for purely local purposes, out of Palestine as a condition of being recognised as 'trustee.' But it is still more to be hoped that the proposal will be dropped, and that, instead, a real plan of partition, including the renunciation of the mandate and the concession of complete self-government to the new Jewish and Arab States, will be put forward. This would not necessarily be inconsistent with reserving an area in Southern Palestine for future allocation, provided that in the meantime no military bases were established or maintained in it, and that the concession of independence to the areas actually assigned to Jews and Arabs were made as complete as parallel concessions have been made in Syria and in Lebanon at the expense of the French. Nor would it be inconsistent with international guarantees of the integrity of the territories of the small independent States controlled by the separate Arab and Jewish Governments, or with the granting to either of special financial help towards their successful establishment on sound economic foundations. There is no reason why pipe-lines for oil should not run through Palestine—indeed, they must. But there is every reason why oil should not be made a reason for Anglo-American military and political domination on an exclusive basis.

Arab Palestine

Against this policy it is urged that the Arab part of Palestine, consisting largely of the more mountainous regions and containing

a large tract of sheer desert, could not possibly maintain itself as an independent country. It is true enough that, if there were no intractable racial problem, no one in his senses would wish to partition Palestine, which is already too small to form a satisfactory State on its own. But it is also true that Arab Palestine, shorn of the predominantly Jewish districts, would not be, in relation to its area and population, less fertile than other Arab States, and that it would be capable, given initial help, of surviving and developing as a partner in an Arab federation of neighbouring States. There is intense need for capital help in developing the whole Arab territory with the aid of international capital supplied on terms, not of capitalist exploitation, but of controlled international investment of the type discussed in previous chapters of this book.[1]

The Case for Real Partition

If partition were carried through on these lines, under international guarantee, as a development of the plan recommended by the Peel Commission in 1937, it is reasonable to hope that the settlement would be regarded, if not as final, at any rate as more durable than any other settlement that is at present within the range of practicability. Finality, as we have seen, is not to be looked for as long as there remains any prospect of the whole world being thrown again into the melting pot by war. But a partition under international auspices, especially if the Soviet Union, through U.N.O., became fully a party to it, would confront the Arab States with a situation which they would have strong inducements to respect. Their prospects of international help in facing their own problems could be made to depend on their respecting it; and it is not too much to hope that, if world war could be averted, it would become possible for friendly relations and economic co-operation to grow up between Jewish Palestine and its Arab neighbours.

This, however, will not be possible at all if either the proposed partition is made in such a way as not to confer any real independence or, even if it is, should Great Britain, with or without American backing, seek to combine partition with the maintenance of a great military base in Southern Palestine. It may be awkward for the British to be compelled to evacuate Egypt; but that gives them no sort of right to convert to military use a territory held under mandate, or to make the unhappy remnant of Jewry the sport of the military requirements of British imperial power. Nor, of course, in a world free from the threat of war,

[1] See pp. 655ff.

would the position of Palestine athwart the main route for the transport of oil to Europe make any vital difference to the settlement of its political problems. Yet, given the world as it is, these things do obviously make an enormous difference, and must affect the practical policies and calculations of both Jews and Arabs, as well as of the Great Powers which interest themselves in Palestinian affairs.

This chapter was finished before the lamentable developments in Palestinian affairs during the opening months of 1947. Mr. Bevin's reiterated rejection of partition, despite known dissent within the British Labour Cabinet, led to a feeling of despair among the Jews, both in Palestine and elsewhere. It caused the World Zionist Congress, hitherto on the moderate side, to go over to a less accommodating policy: it greatly strengthened the terrorist minority among the Jews, and it led to an attempt by the British authorities in Palestine to govern the country by martial law—an attempt which could hardly succeed, and was bound to be ruinous in its economic effects. At the same time Mr. Bevin's attitude encouraged intransigeance on the Arab side, and committed Great Britain to either maintaining indefinitely a costly army of occupation under conditions most unpleasant to its members or withdrawing in such a way as to leave the unfortunate Jewish inhabitants in an utterly impossible position. The British decision, early in 1947, to refer the whole question to the U.N.O. Assembly was merely a putting off of the issue; for how was U.N.O. expected to deal with it? There is no solution—at any rate no tolerable solution—except partition; and the longer real partition is deferred, the less chance can there be of its success.

CHAPTER XI

THE UNITED STATES IN WORLD AFFAIRS

THE UNITED STATES, as we have seen in an earlier section of this book, is by far the wealthiest country in the whole world,[1] and has in general the highest standard of living. It would, however, be a great mistake to think of the United States as a country that has banished poverty and insecurity from its people's lives. It is, on the contrary, a place of sharp contrasts, not only between persons, but also between areas; and it is subject to extraordinary instability. In the great economic crisis which, beginning in America, swept over the world in 1931, the national income fell, not merely in dollars, but in real amount, by almost one-half, and industrial production dropped by more than one-half. There was a general panic, with banks closing their doors, share-values falling sensationally, and unemployment reaching a prodigiously high level. Thereafter came a slow and incomplete recovery, brought about by vast public expenditure under the 'New Deal'; but right up to 1939 there had been no revival of investment by private capital-owners to the level that had been reached before the slump. It needed world war to swing the United States back to prosperity and boom, at first in supplying the belligerents before Pearl Harbour, and then in meeting the vast demands both of the American forces and home public and of the rest of the United Nations, which necessarily depended greatly on America both as arsenal and as source of food and other consumers' goods. During the first phase of the war the United States drew in vast payments from Great Britain and other countries for war supplies. Later, these supplies were financed mainly under the Lease-Lend Agreements concluded with most of the United Nations. These meant that the American Government was spending at a prodigious rate, and was adding largely to the National Debt, though, as American troops came to Europe, Lease-Lend payments became to some extent reversed, as Great Britain in particular had to meet the expenses of American forces stationed in this country, as far as they were represented by goods which Great Britain could supply. When the war ended, there was a large Lease-Lend balance in favour of the United States; and

[1] See pp. 55ff.

The United States and Its People, 1940

(*Thousands*)

Total population	131,700
Total immigrants, 1908–40	12,948
Negroes	12,865
Aliens	3,344
Naturalised	7,250
Jews	3,389
Immigrants born in—	
Italy	1,624
Germany	1,238
Russia	1,041
Poland	993
Scandinavia	845
Great Britain	622
Eire	622
Austria	480

	New York	*Chicago*	*San Francisco*
Total white population	6,978	3,115	603
Native-born whites	4,897	2,442	472
Foreign-born whites	2,080	673	130
Negroes	458	278	5
Jews (N.Y. State)	1,604		

Number of farms	6,097
Acreage of farms (millions)	1,061
Acreage of principal crops (millions)	338

United States: Employment in 1940

(*Thousands*)

		Per cent.
(*a*) *Private*		
Manufactures	12,122	25·9
Mining	764	1·6
Construction	2,441	5·2
Transport and public utilities	2,944	6·3
Trade, finance and services	15,124	32·3
Agriculture, forestry and fishing	9,210	19·7
(*b*) *Public*		
Armed forces	48	0·1
Other public employment	4,190	8·9
Total	46,843	100

Age Distribution in the United States

(*Per cent.*)

Under 15	25·0
15–24	18·2
25–44	30·1
45–64	19·8
Over 65	6·9

Number of births, 1940	2,360,399
Number of deaths, 1940	1,417,269
Birth rate, total	17·9
Birth rate, white	17·5
Birth rate, others	21·7
Death rate, total	10·8
Death rate, white	10·4
Death rate, others	13·8
Infant mortality rate, total	47
Infant mortality rate, white	43
Infant mortality rate, others	74
Fertility rate, total	2·1
Fertility rate, white	2·1
Fertility rate, others	2·3
Net reproduction rate	1·012
Expectation of life at 1 year of age:	
Whites, men	64·9
Whites, women	68·8
Others, men	56·0
Others, women	58·2

Negroes are about ½ total population in South Carolina and Mississippi.

Negroes are over ⅓ total population in Georgia, Alabama and Louisiana.

Negroes are over ¼ total population in North Carolina, Florida and District of Columbia.

Negroes are about ¼ total population in Virginia and Arkansas.

Negroes are over 10 per cent. total population in Maryland, Delaware, Tennessee and Texas.

Negroes are over 5 per cent. total population in New Jersey, West Virginia, Kentucky, Missouri and Oklahoma.

Negroes are over 4 per cent. total population in New York, Pennsylvania, Ohio and Illinois.

Negroes are over 3 per cent. total population in Indiana, Michigan, Kansas and Arizona.

Negroes are under 2 per cent. total population in all other States.

PRE-WAR PRODUCTION IN U.S.A., U.S.S.R. AND U.K. COMPARED

(*Figures for 1938, unless otherwise stated*)

	U.S.A.	*U.S.S.R.*	*U.K.*
Wheat, million quintals	254	409	20
Barley, million quintals	55	82	9
Rye, million quintals	14	209	—
Oats, million quintals	155	170	20
Maize, million quintals	651	27	—
Potatoes, million quintals	102	420	52
Sugar, million quintals	20	22	3
Tobacco, million quintals	6	2	—
Milk, million hectolitres	478	280	67
Butter, thousand metric tons	1,016	198	47
Margarine, thousand metric tons	175	?	212
Cheese, thousand metric tons	329	35 (1936)	44
Meat, thousand metric tons	7,475	3,303	1,360 (1937)
Cotton, million quintals	26	8	—
Wool, thousand metric tons	203	137	50
Rayon, thousand metric tons	117	7	48
Staple fibre, thousand metric tons	14	—	14
Wood pulp, thousand metric tons	5,382	740 (1937)	270
Cement, million metric tons	18	6	8
Petroleum, million metric tons	164	29	—
Coal, million metric tons	358	133	231
Iron ore (metal content), million metric tons	27 (1939)	13	4
Steel, million metric tons	49 (1939)	18	11
Aluminium, thousand metric tons	120	44	23

a settlement of all outstanding Lease-Lend obligations formed part of the Loan Agreements concluded between the United States and Great Britain in 1946. In respect of the Lease-Lend obligations considered in isolation this settlement looked generous; but it must not be forgotten either that Great Britain had paid away great sums for American supplies early in the war or that the sudden termination of Lease-Lend when hostilities ceased caused very serious economic difficulties in view of the complete dislocation of British industrial production.

The Great Creditor

The United States is not only by far the wealthiest country in the world, but also a great creditor of other countries. Up to the first World War the United States was a debtor nation, in the sense that foreigners owned more capital invested in America than American citizens owned abroad. But ever since the war of 1914–18 the United States has been a creditor; and during the 1920's there was a great outflow of American capital for investment abroad, especially in Europe and in Latin America. These

loans served to balance the accounts between the United States and the rest of the world, in face of the large excess of American exports over imports. The high American tariff, as well as the wide diversity of resources available in the United States, limited the power of other countries to find markets for their goods in that country; and the large purchases of American goods were made possible only by American capital loans. In particular, American citizens made large investments in Germany; and such payments of reparations as the Germans in fact made were really financed by these loans.

Then, first in the American boom of 1928–9 and later in the depression that followed, capital ceased to flow out from the United States. This made it impossible for other countries to keep up their purchases of American goods, and was a considerable factor in intensifying the slump. Moreover, the Americans greatly reduced their own purchases of foreign goods; and other countries had to make considerable payments in gold to the United States in order to buy imports with which they could not dispense. The gold supplies of most countries began again, as they had done after 1918, to be transferred to America; and the Americans had to take the gold, though they had already more than they needed, because there was no other way in which their customers could pay them for their goods.

The U.S.A. in Wartime and After

The second World War provided the American economy with an unlimited market for everything it was able to produce; and, especially after the introduction of the Lease-Lend system had solved for the suppliers the problem of getting paid (by making the U.S. Government the source of payment), output grew by leaps and bounds. Prices were kept to a considerable extent under control by special wartime legislation; and wages were also controlled. But full employment, overtime, and high piecework earnings raised the effective incomes of workers in the war industries, and had a considerable effect, as war plants were erected all over the country, in raising income levels in what had been poor and backward areas. Farmers also did well, with an unlimited demand for their products; and there arose a scarcity of goods in relation to the spendable income in the hands of the public as a whole. There was, however, no rationing comparable in severity with what was enforced in Great Britain; and, whereas here the standard of consumption fell sharply, in the United States it notably increased. When war ended there was some dislocation. Earnings dropped in many trades, and unemployment

reappeared. But, with large numbers still away in the armed forces, the surplus labour from the war plants was for the most part speedily absorbed, and by the middle of 1946 many of the conditions for a boom appeared to exist, and to be held in check only by the continued enforcement of the war controls over prices and wages.

At this point the United States Congress refused to renew the price controls in their existing form, despite the Government's insistence on the need for them, and put forward a bill which so emasculated the controls as to make them, in the President's view, wholly unworkable. The President used his power to veto the Bill passed by Congress, and all price controls under federal law lapsed at the beginning of July, 1946. Alarmed at the prospect of a runaway boom in prices, Congress set to work to draft a new bill; but this was at once cut about by the representatives of the farming interests so as to exclude nearly all important foodstuffs from its scope. Later, control over most farm products was re-imposed, but in a greatly emasculated form; and at the end of July, 1946, the President reluctantly signed a new Price Control Act which he knew would inevitably involve a considerable rise in the cost of living. It was in effect impossible to undo the consequences of a month's uncontrolled price-increases; and the new Act was so weakly drawn as to be unlikely to prevent further increases in the prices of key commodities. It then became a question of how long it would be before the workers endeavoured to secure wage-advances to balance the rising prices; and of what would happen when they did. There was at any rate the potentiality in the United States of a tremendous struggle between the Trade Unions and the employers, who have bitterly disliked the great increase in Trade Union strength that has come about in recent years, and are still largely hostile to any recognition of the rights of collective bargaining.

The American Labour Movement

American Labour, though it has greatly increased its strength, is sharply divided between two mutually hostile groups. The American Federation of Labour, the older body, is still the biggest organisation, and represents the more conservative tendency. It consists largely of craft unions, whereas its younger rival, the Congress of Industrial Organisations, broke away from it largely because its leaders felt an industrial basis of recruitment to be indispensable for organising the workers in the great mass-production industries, such as steel, automobiles, rubber, and textiles. At that stage, the leading figure in the C.I.O. was

John L. Lewis, the President of the United Mine Workers, and his Union played a very great part in creating the C.I.O. Thereafter, Lewis quarrelled with the C.I.O., largely on political grounds; for he was violently hostile to President Roosevelt, whereas most of the C.I.O. leaders were strong supporters of the New Deal. Lewis, as a result of this quarrel, took his Mine Workers and a number of other groups which he had organised back into the A.F. of L., with the consequence that the dispute between the two can no longer be regarded as resting on the respective merits of 'craft' and 'industrial' Unionism—for the Mine Workers are the most powerful industrial Union in the United States. It is much more a personal and political quarrel, between the American Trade Unionists who believe in capitalism and are strongly hostile to Socialism and to the Soviet Union and a left wing which, though it is not necessarily Socialist, upheld the 'New Deal' and, through its Political Action Committee, founded by Sidney Hillman, threw its weight strongly on the side of Roosevelt and has since given backing to the most progressive candidates it has been able to find in both Federal and State elections. The C.I.O. forms the American section of the new World Trade Union Federation, which the A.F. of L. has refused to join, because it objects to any sort of association with the Trade Unions of the U.S.S.R.

This division in the ranks of the American Labour movement is a very serious matter; for as long as it continues American Labour cannot become a political force with an independent programme of its own. Socialism has never been a powerful influence among American workers, largely because American capitalism, with all its instability, has been a rapidly expanding system and has offered, until quite recently, many chances to enterprising individuals to rise out of the working class, and also favourable conditions for increasing wages and improving conditions in the trades and industries in which rapid expansion has occurred. The slump of the 1930's had a great effect on the attitude of the workers, particularly in the mass-production industries, which were most seriously affected. It brought the C.I.O. into existence; and for a time it seemed to threaten the very existence of the A.F. of L. But recovery, especially during the war years, helped the A.F. of L. to regain much of its position and prestige, and to outdistance the C.I.O. in membership. The American Trade Unionist still largely accepts capitalism as an institution, and regards his Union as an instrument for screwing the best terms out of it, rather than as an engine of social reconstruction. Trade Unionism in the United States is a 'business,' like most other

things, and throws up a type of leader who closely resembles a successful business man. Even the C.I.O. is much less political than most European Trade Union movements, and has hitherto refrained from any attempt to create a separate working-class party, like the British Labour Party.

The Political Action Committee of the C.I.O. has, however, sometimes been regarded as the forerunner of an American Labour Party; and it might no doubt develop along this line. But for the present it continues to follow the traditional policy of American Trade Unionism in supporting those candidates put forward by the two main parties who seem most likely to further Labour's demands; and in practice this policy has ranged it on the side of the Democrats in the great majority of elections, though it has held itself free to oppose reactionary Democrats in particular cases. Its general line, up to Roosevelt's death, was to give him solid support for his New Deal policies, which included a large measure of recognition for Labour's rights and claims. With Roosevelt dead, and Truman in his place, its attitude became more uncertain; but it gave support in most cases to Democratic candidates in the Congressional elections of November, 1946, and the crushing defeat of the Democrats carried with it the removal from the new Congress of a high proportion of those who had been most favourable to Labour claims. The seats lost were largely those held by the more progressive Democrats; and the new Republican majority included a high proportion of members who were strongly hostile to Labour, and eager to place anti-strike laws on the statute book. Even before the elections, the resignation from the Cabinet of Mr. Henry Wallace had been a signal that the Democratic Party was moving sharply to the right. Nevertheless the Democrats can by no means afford to antagonise their Labour supporters, upon whom rests such slender hope as they have of winning the next presidential election; whereas the now triumphant Republican Party includes most of the capitalists who are most vocal in demanding a 'show-down' with Labour and a reversal of the Roosevelt policies which have given the Trade Unions a greatly increased bargaining power by removing the legal disabilities to which they had previously been subject.

The Party System in the U.S.A.

It has, of course, always to be borne in mind that the pattern of American party politics is quite different from ours. The Republican and Democratic Parties in the United States do not stand for rival policies or conceptions of social organisation. They are

vast machines, within which conflicting tendencies and interests do battle. On the whole, largely because of Woodrow Wilson's and of Franklin Roosevelt's personal qualities, and of the situations with which these two statesmen had to deal, the Democratic Party has been identified in recent years with the more progressive policies; and on the whole the Republican Party has stood most strongly for the interests of big business and unfettered capitalist exploitation. But there is a progressive section inside the Republican Party, and a most reactionary section—the Southern Democrats—inside its rival; and usually neither party can afford to ignore any substantial section of its following, for fear of handing over power to the other side. Foreigners often ask why such a situation is not brought to an end by a rearrangement of parties, with the progressives on one side and the conservatives on the other. The answer is to be sought partly in the immense entrenched strength of the rival party machines, which makes it very difficult to create any nation-wide political machine in opposition to them; but it really lies much more in the absence of any clearly defined rival conceptions of the future of American society. The British Labour Party was able to force its way to the front because it did stand for a clear conception of a new social structure, based on the notions of social security and collective control of the resources of production, and because this conception appealed to a large section of the people, including most of the effective leaders of local working-class opinion. There is still no such conception, commanding wide popular support, in the United States, where most people still instinctively accept an "American way of life" based on private enterprise and the quest of the dollar; and in the absence of such a conception rival policies in the United States are based less on permanent theories than on temporary considerations of expediency and waves of feeling played on by very highly organised progandist machines. For this reason, though divisions on particular issues may be very sharp, they do not lead to durable groupings of opinion on a national scale; and the old parties continue to hold the field because there is no new idea which offers to their supporters a really compelling challenge.

This situation might change very quickly if the Americans were to experience a second slump comparable in intensity with that of the 1930's. That slump did go some distance towards creating the conditions which would have made a far-reaching rearrangement of parties possible; but wartime prosperity has had a remarkable effect in wiping out of the mind of the people the miseries of the great depression and in reinstating the old belief in the

"American way of life." This has given the traditional parties a new lease of existence, retarding the growth of Socialist sentiment and of the feeling of hostility to capitalist control and leading to a vehement reassertion of the merits of private enterprise and the 'un-American' character of any sort of public control over business affairs. Moreover, Socialism is closely associated in the minds of many Americans with the form which it has assumed in the Soviet Union—a form which, on the political plane, presents it in the most antagonistic light to the hitherto prevalent American conceptions of democracy.

'Americanism'

It is well worth while to reflect a little on this point. Economically, the Soviet Union often strikes the observer as greatly influenced by 'Americanism,' and as reproducing many of the salient characteristics of the American economy. It has the same belief in bigness and hustle, in the virtue of material progress, and in talking big. I once received an advertisement from an American hotel which held out as its principal attraction that it used more soap than any other hotel in the world; and I can imagine just such a circular emanating from Moscow—as soon as the Soviet Union has enough soap. But politically the contrast is as striking as economically the resemblances are plain. The Americans, no doubt, share with the Russians a readiness to howl at nonconformists, and even to murder them under certain conditions. But American political life is based on a theory that public opinion ought to be followed and not led, whereas the political system of the Soviet Union rests on the disciplined leadership of the Communist Party, and pays no heed to opinions which have not been formulated under its auspices, or at least with its consent. Of course, the public opinion which the Americans follow is in practice largely a manufactured opinion, in the making of which wealth exercises a very great deal of power. But it is opinion manufactured not, as in the Soviet Union, by the party which is also the Government, but by influences external to the Government. It therefore wears the guise of 'free' opinion; and the typical American politician accepts it as his guide, whereas he is acutely suspicious of anything that looks like an extension of the influence of Government over the affairs of the citizen.

The Separation of Powers

The strength of this tendency is accentuated in America by the 'separation of powers' between the President and the Congress; for this prevents the United States from having, save at moments

of exceptional stress, anything that can properly be called a coherent government policy. Congress is irresponsible, because it neither possesses executive power, nor is organically related to its possessor as Parliament and Cabinet are related in the British system. When one party has the President and its rival Congress —a situation that has actually existed since the Republican Congressional victory of 1946—something not far off a paralysis of government can occur. Even when they represent the same party, the relations between them are often by no means easy, because there exists no clear line of policy which they are pledged to follow in common, and because Congressmen are always thinking more of local pressures than of getting a consistent policy put into effect.

Communism stands, politically, for a complete challenge to these ways of government. As thoroughly as Hobbes ever did, it rejects all division or separation of powers. There could be—perhaps there will be—an American Socialism that fits itself on to the American political tradition, as Russian Socialism has fitted itself on to the tradition of Czarist Russia and British Socialism to the traditions of British parliamentary practice. But assuredly this American Socialism will not be like Russian Communism, in its political aspect, even if economically it does come to resemble Communism rather than British evolutionary Socialism.

At all events, neither Socialism nor Labour is yet, in the United States, a force asserting its claim to transform the social system as a whole; and, that being so, there is no driving power strong enough to create an American Labour Party in defiance of the existing party machines, or even to unite the warring factions of American Trade Unionism in pursuance of a common ideal. How long this situation will continue I do not pretend to know: the thing likeliest to end it is another really big slump.

The 'American Way of Life'

The belief in the 'American way of life' has been severely shaken, but not yet broken, among the American working classes, particularly those in the mass-production industries which felt the slump most severely. But among the classes that still govern America, and among the social groups of whose opinions these classes take account, this belief has hardly been shaken at all. Even the skilled workmen largely retain the old attitude unchanged. Even those who supported Roosevelt and the New Deal did so largely in the sense of supporting quite exceptional measures of state intervention in order to cope with a quite exceptional crisis, and not with any conviction that the crisis was due to some-

thing really amiss with the American economy, or that it would soon recur unless the basis of the economy were changed. Roosevelt himself, after setting out with a programme in which measures of 'recovery' were mingled with measures of 'reform,' found himself forced to relax his reforming zeal as soon as his recovery measures began to produce effects. The backing for reform waned quickly as people began to feel less frightened; and it waned fastest of all among the politicians, who were much more conscious of the swelling chorus of protest from the vested interests than of any strong pressure for reform from the main body of their constituents. By the latter half of 1946, the pressure for a sweeping away of the entire system of wartime control had become too strong to be resisted; and in the holocaust of emergency powers the conditions were altered much to the disadvantage not only of Americans living on fixed incomes, but also of needy foreign countries which found prices of American goods raised sharply against them as the American people began to consume the 'surplus' needed for export in order to avert sheer starvation elsewhere.

Belief in the 'American way of life' strongly colours the attitude of the United States towards other countries and peoples. Successful individuals are apt to think that whatever has served them well must be good for everyone else; and successful nations are apt to behave in the same way. The United States, despite its experience in the 1930's and its tendency to instability, which goes back much further, has been eminently successful in the arts of getting rich; and Americans have to-day, as Englishmen had in the nineteenth century, a little habit of telling the poor foreigner how wrong he is not to behave just as they do. Of course, this is not true of all Americans, any more than it was ever true of all Englishmen; but it does colour American official pronouncements and the American Government's dealings with other nations. This applies particularly in the matter of trade policy, and when questions of the art of government come under international consideration. In trade matters, the Americans blandly assume that tariffs are all right, because they practise them, but that all other measures for the planning of a country's international trade are wicked examples of 'discrimination' and foolish violations of economic law. In financial matters, having more gold than they know what to do with, they regard everyone who has doubts about the gold standard as guilty of deadly sin. In politics, they assume that all countries ought to have party systems as like as possible to their own, and that any system which is unlike their own can be condemned out of hand as 'undemocratic.' No doubt,

other peoples share this bland habit of assuming their own way of life to be the norm of virtuous conduct and all deviations from it to be due to original sin. But I think the Americans have the habit somewhat highly developed; and of course, their immense power makes us more conscious of it than we should be if it made no great difference to us what the American people and the American Government thought or did.

I am not suggesting that the Americans are more self-righteous than the Russians, who hold even more completely that everybody ought to follow their lead, and that everybody who does not is plotting against them. That is not what I am trying to say. What I do mean is that, whereas the Communist self-righteousness is based on a definite creed and policy, which those who hold it believe to be destined to conquer the world, American self-satisfaction rests on something much less tangible—on a 'way of life' which is not embodied in any clearly formulated creed or policy, unless the belief in capitalist enterprise be regarded as one, and is unaccompanied by any plain proposal about how we poor sinners, who are not Americans, ought to set things right. The American political attitude to other countries, indeed, often appears to be less a programme than a gargantuan sniff.

U.S. Foreign Policy

Traditionally, the United States foreign policy has been 'isolationist,' at any rate in the sense of trying to confine its commitments to the New World. This has never quite worked in the Pacific—witness American intervention in the Far East from the days of Commodore Perry, and the annexation of the Philippine Islands after the Spanish-American War. But even in the Far East the handling of the Philippine problem, culminating in the restoration of full independence in 1946 (though in fact American influence remains as fully dominant as before), indicates that American statesmen have not felt happy at becoming involved in territorial commitments outside the American continent. The Monroe Doctrine, with its cry to Europe to keep its hands off America, has fitted in with this isolationism, which was responsible for the withdrawal of the United States from the League of Nations—though the League was largely of President Wilson's devising—after the first World War. Responsible American statesmen now recognise, in the light of Hitler's plans of world domination, which so narrowly missed fire, and of the coming of atomic power, that isolationism is no longer a workable policy. But they do this for the most part reluctantly—there was reluctance even in Mr. Wendell Willkie's impassioned plea to his

countrymen to understand that there is only "One World"[1]—and a great many of their followers, less alive to the real movement of world affairs, still do not recognise it at all.

It is no small part of the trouble that, to the extent to which the Americans do become conscious of the unity of the world, they also become aware that it is by no means all governed to their liking, and in particular that there exists in the Soviet Union a potential opposition to the spread over the world of the 'American way of life,' and even a potential threat to the survival of that 'way of life' on the American continent. Abandonment of isolationism can lead to the growth of a will to co-operate in building up a better world by peaceful and friendly collaboration among the nations; but it can also lead to a will to unite as much as possible of the world under American leadership against the 'Communist menace.' Both these lines of development can be clearly seen in the contemporary movements of American opinion; and the one can all too easily pass into the other. The desire to organise an anti-communist front under American leadership can easily be represented as the unavoidable reaction to the unreasonable attitude of the Soviet Union—which unreasonableness proceeds, as we have seen, largely from the fears of Soviet statesmen that just such a front is already being brought into existence against them. Every time Mr. Bevin and Mr. Byrnes saw eye to eye about anything—and they did so very often—Mr. Molotov was strengthened in his opinion that there was a world plot brewing against the Soviet Union; and every time Mr. Molotov reacted by taking up an attitude of sheer negation he added to the danger that what he feared might come to be true in fact.

American Policy in Eastern Europe and in the Far East

For the danger is real. If the Americans suppose their 'way of life,' which involves freedom of entry for capitalist enterprise all over the world, to be the right basis for the United Nations Organisation and for the specialist bodies attached to it, whereas the Soviet Union's spokesmen stand for the Communist 'way of life,' or for as near an approach to it as they believe to be practicable at present, over every area in which they are in a position to influence the course of events, there is evidently no basis on which U.N.O. can possibly work as a constructive force making for real world collaboration. U.N.O. can work in this way only if the leaders of the rival groups are prepared to recognise spheres within which each is to be permitted to foster a 'way of life' patterned upon its own, and *on this basis* to consider how far they

[1] See *One World*, by Wendell L. Willkie. Cassell, 1943.

can fruitfully collaborate and improve relations between the areas falling within the different spheres.

This, however, the Americans are at present by no means ready to do. They will not let the Danube alone, though the countries along its banks for most of the way obviously fall in fact within the Soviet sphere of influence. They can no doubt retort that the Communists will not let them alone, but are busy conducting subversive propaganda wherever they can, both in Latin America and in the United States itself—to say nothing of making trouble in China and Manchuria, which the Americans regard as falling within their sphere of influence. Indeed, in the Far East the Americans have acted, since the collapse of Japan, quite as unhesitatingly on the principle of doing things in their own way, and telling their allies to go hang, as the Soviet Union has in Poland or in the other satellite States in South-eastern Europe. General MacArthur has ruled Japan without the smallest concession to other people's views of how it ought to be ruled; and in China no external power except the American counts for anything except in the areas under Communist control. The Soviet Union no doubt objects strongly to General MacArthur's political and economic policy in Japan, as well as to the support given to Chiang Kai-shek in China and Manchuria. But it has done nothing about these things, because it has been able to do nothing effective. The Americans, on the other hand, have failed to recognise that every futile step which they take to assert the rights of capitalism and 'capitalist democracy' in Bulgaria or Roumania induces the Soviet Union to respond with much less futile counter-aggressions elsewhere, because it can over most of the world command much more effective agents and supporters than the 'old gang' politicians and self-styled peasant leaders whom American diplomacy attempts to fortify against the friends of the Soviet Union.

The Americans fail to see this, because they are perfectly sure that everybody ought to behave just like themselves, and that only plain wickedness stands in the way of such behaviour. The Communists are no less cocksure, but, being clearer-headed, are more prepared to limit their immediate objectives in accordance with their strength, and therefore more prepared for world collaboration on a basis which recognises their claim to dictate the politico-economic structure only within the sphere to which their strength extends. It is perfectly true that if the Soviet Union felt stronger, it would claim more—even up to claiming the whole earth as its sphere, if it felt strong enough. It does not, however, feel strong, especially in view of the United

States' present monopoly of atomic power; and the one hope of building up a system of world collaboration lies in seizing the chance while the Soviet Union recognises the need to limit its objectives.

America as a World Power

The great question is whether the Americans, who are not clever about foreign policy, can be brought to understand this, and to endeavour, instead of making so many noises about the world danger of Communism and their mission to avert it, to come to terms with the Soviet Union on the basis of a recognition of spheres of influence, coupled with an attempt to build forms of world co-operative action that are consistent with this division of the world's peoples between these different spheres. I do not feel much hope of the Americans doing this unless and until the States of Western Europe, and above all Great Britain and the British Dominions, make it plain that they will on no account be drawn with the United States into an anti-Soviet *bloc* posing as the true embodiment of the United Nations. Indeed, the prospect of success is reduced by the new entanglement of America and Great Britain in the politics of 'oil-imperialism' in the Near and Middle East, and by the reactions of this entanglement on the relations of both Great Britain and America with the Soviet Union.

Of course, apart from other difficulties, the present extreme dependence of Western Europe on American economic aid makes such a policy not at all easy to pursue. We in Great Britain simply cannot afford so to antagonise the Americans as to lead them to refuse us further help and even possibly to withdraw in high dudgeon their forces of occupation from Germany. We have to keep on good enough terms with the Americans to persuade them not to repudiate their European responsibilities or withdraw their economic help; but we have also, in our own interest, to make it plain to them that we are not—we in Europe—the outposts of American forces in a coming world war between the United States and the Soviet Union. We can do this only by coming to terms among ourselves, and by creating, whatever the difficulties in the path, a Western Europe which stands for its own clearly defined way of life, and refuses to allow itself to become a mere battleground for ideological conflicts between American-sponsored capitalism and Soviet Union-sponsored Communism.

We can no more hope to make the Americans than we can hope to make the Soviet Union see the need for this act of West European self-assertion until we have acted to make it a reality.

Until we have done this, the Americans will interpret every sign of our disagreeing with them as meaning that we are under the influence of Communism—which they have not learnt to distinguish from our brand of Socialism—just as much as the leaders of the Soviet Union will interpret every disagreement with them as a proof that we are the satellites of American capitalism. At present, we are disposed to regard the American isolationists as our enemies, and the American interventionists as our friends. But we may come to be glad of the isolationists' influence—provided it does not wholly win the day—as a force holding back the American Government from advancing too far towards head-on conflict with the Soviet power. It would be sheer disaster for Western Europe to become an anti-Communist outpost of the American 'way of life'—even more of a disaster than it would be if Western Europe were to 'go Communist' in despair of following out its own path of liberal Socialism. And American isolationism, with all its bad qualities and its dangers to our hopes of world unity, is also an obstacle in the way of the worst of all the alternatives to world unity—the sharp division of the whole world between two—and only two—overweening and self-confident claimants to total world power.

CHAPTER XII

PROSPECTS OF WORLD DEVELOPMENT

THE PURPOSE OF THE foregoing chapters has been to measure the need and to emphasise the importance of deliberate planning on a world-wide scale to raise the standards of productivity and consumption, especially in the backward countries, so as to bring them into some sort of relation to the progress that has been made in knowledge of the productive arts. If the world to-day remains for the most part desperately poor, this is not for lack of knowledge—though it is in part because the knowledge available in one place is not so diffused as to become the common possession of mankind. The failure to diffuse knowledge is, however, more symptom than cause; for, on the whole, it is much less near the truth to say that men are poor because they are ignorant than that they are ignorant because they are poor. Education and especially scientific training, while they are means to the increase of wealth as well as sources of direct satisfaction, are in the main by-products of a high standard of living. Education is an expensive process, of which only the well-to-do can afford more than the rudiments; and this is no less true of societies than of individuals.

Poverty and Ignorance

Most of the world's peoples remain ignorant because they are poor. The achievements of modern science are unknown to them: even their agricultural techniques remain primitive in the extreme. Nor is any real attempt made to remove this ignorance. The imperialist powers spend but pitifully inadequate sums on education in their colonial territories; and on scientific, or even technical, education next to nothing. Aeroplanes fly over the remotest parts of the earth: steamships visit the remotest islands. Things in tins penetrate almost everywhere: there is hardly a village, however primitive, where something made with the aid of wonderfully complex modern machinery is not to be found, even if it be only a loincloth or a string of beads. But though the products of modern industry are carried to the ends of the earth, the art of making them is not—or when it is the making is usually supervised by white overseers from the advanced countries, and the life of the native community goes on almost unaltered within

a few miles of the site where modernity has set up its marvels. A few areas have been heavily industrialised: sometimes the most up-to-date machinery is found installed amid the most primitive surroundings. But the startling contrasts of productivity between country and country remain. The average American in the United States produces at least six times as much as the average Indian, and probably a good deal more. Even the average Frenchman or Belgian produces nearly four times as much.

The Alleged Inequality of Peoples

There is no evidence at all that the African or the Indian or the Chinaman is by nature destined to be less productive, or less intelligent, than the Englishman or the American. Immigrants, transplanted to the United States from backward countries, soon reach American standards; and many of them rise high in the economic scale. If American negroes do not, this may be due to the treatment they receive, rather than to any inferiority of natural endowment. The Russians have shown in our generation, as the Danes showed our fathers, how quickly a people can raise its standards of production if it sets to work with a clear will and purpose.

The lands on which the poorer peoples live are not, in most cases, inferior lands. Many of the poorer peoples have rich land and considerable mineral wealth beneath it. No doubt, some of the poorest are crowded upon bad land; but who crowded them? And did not the land, in a good many of the cases, become poor because of the crowding, and not because it was bad by nature? There are wealthy peoples to-day living on what was poor land till they set to work to improve it, or on land that is poor still from an agricultural standpoint, but has been put up to a high site-value by use for industrial purposes. The poverty of the physical environment provides no explanation of the poverty of peoples. They are poor because they do not know; and they do not know because they are poor.

Through all the startling economic developments of the past hundred years this vicious circle has remained unbroken. Are we ready to break it now? That is the question which I have been attempting to pose in the foregoing chapters; and it demands an answer not only in the interests of the poorer countries, but in those of the richer as well.

The Great Game of Beggar-my-neighbour

Throughout the period between the wars, the advanced nations, instead of working together to promote the general

welfare, played at beggar-my-neighbour. Each country, fearful of an unbalanced state of its exchanges, or merely, when there was no such risk, avid for exports and determined to protect the profits of its own manufacturers, tried to export more than it imported, or at any rate to restrict imports as much as it could wherever they were competitive with home products.

Such a process is bound to be self-defeating. Obviously, countries cannot all export more than they import, because every export is an import as well. If one country succeeds in increasing its exports and reducing its imports, it thereby reduces the purchasing power in the world market of the countries whose exports it shuts out, so that they have to buy fewer imports. One country may conceivably benefit by such a process, but only at other countries' expense; and it is much more likely that they will all suffer together, however unevenly the suffering may be spread. What will happen is an all-round reduction of international trade, as each country in turn, finding its exports falling off, is compelled to curtail its imports in a scramble to balance its international accounts. Usually this happens to the accompaniment of competitive depreciation of currencies, as one country after another tries to increase its exports by making them cheaper to buy with other countries' money.

The Case against Autarchy

There are some people who believe that this does not matter, because they think it better for countries not to depend much on foreign trade, and to live mainly upon their own resources. Very big and diversified countries, with a great variety of climates, soils and new materials within their frontiers and vast home populations as well, may be able to live 'of their own' to a great extent without serious loss, though even such countries are usually deficient in some essential materials, as the United States are, for instance, in rubber and tin. But no small country, and none that has not a very wide variety of natural resources, can reduce its foreign trade to a low level without serious economic loss. If it has to live mainly 'of its own,' it will have to produce at high cost in man-power and effort, and perhaps with inferior substitute materials, many things which could be produced much more easily and better elsewhere; and in trying to produce too many different things, it will in many cases forfeit the economies of mass-production. The smaller and the less diversified a country is, the greater these economic disadvantages will be. Great Britain, small in geographical size, is of medium size in respect of population, but lacks many essential materials, of which rubber, oil,

cotton, and tropical foodstuffs may serve as obvious examples, together with most of the non-ferrous metals which lie at the basis of modern engineering. It is no accident that Great Britain depends greatly on foreign trade: it is inherent in the natural conditions of the country, with its plenty of coal and its relative poverty in most other essential materials. No doubt, British dependence on the rest of the world has been aggravated by the long neglect of agriculture; but even if British policy in this respect were reversed, the essential dependence would remain. Great Britain needs both more food than hitherto, and a wide diversity of kinds of food, in order to live well; and even if it is decided to maintain home production of food at a higher level in future—as it should be—the effect will be, not to reduce British demand for food imports, but only to prevent it from rising further. Moreover, Great Britain can do, for the present, only a little to replace imports of raw materials with home-produced substitutes, except at a very high cost or at the expense of much lower quality; and to adopt such a policy would be neither to the advantage of the home consumers nor conducive to British ability to purchase with exports the imports which can by no means be done without.

The Basis of International Trade

International trade, after all, is a matter of plain common sense. Some things can be produced at least real cost in some countries and some in others; and it is plainly to everyone's advantage that things should be produced where they will cost least effort, and the surpluses exchanged. This only seems not to be good sense when it is assumed that the non-production of a particular thing at home means that those who could have been employed in producing it will be thrown out of work, and will be unable to find alternative employment. If a country is following the policy of 'full employment' discussed in an earlier section of this book, no such situation as this can arise. If a worker is not employed in producing one thing, he or she will be set to producing something else; and it is thus clearly advantageous to produce, for home consumption or for exchange, whatever things the country is best fitted to produce.

The only qualifications which this principle requires are, first, that it may be reasonable to produce at home, even at high costs, goods essential to national security, where the purposes of security cannot be served as well and more cheaply by holding reserve stocks; secondly, that *social* costs, as well as costs which fall directly on the *entrepreneurs*, must be taken into account, and that it may be right for a backward country to develop industries that are

inefficient by the standards of the most advanced, and to protect such industries, where they fit in with the national pattern of life, and can supply local needs for consumers' goods;[1] and, thirdly, that, if other countries pursue policies of economic nationalism and thus prevent a country from selling exports to them, it may become necessary for a country to reduce its imports to what it can pay for with such exports as it has left, and to turn to producing at home goods which could be made better and more cheaply elsewhere. This may be unavoidable, but it cannot be done without serious economic loss. It is an unpleasant necessity, to be ended as speedily as possible by persuading other countries to amend their mistaken policies.

The Flaw in the Free Trade System

What I have been stating so far is the core of sound sense behind the old, familar free trade case. It has, however, been abundantly shown by the events of the last two decades that free trade is no longer a practicable way of promoting the international division of labour. Free trade meant leaving everything to the operation of the profit motive, and relying on that motive to bring about a right distribution of productive activity over the whole world. But in practice free trade did not mean that all the world's resources of man-power got employed in doing whatever in each country it was economically best for them to do. On the contrary, it was found to mean that a great many potential producers were left out of work because there seemed to be no sufficient prospect of profit from employing them; and this prevalence of unemployment then led to demands for tariff protection in order to keep out foreign goods, in the hope of increasing employment. Unemployment was the Achilles heel of the free trade system. And yet the free traders were quite right in arguing that tariffs could not be the right remedy, because they would buttress up inefficient production, provide a shield for monopoly and price-raising, and provoke retaliation which would destroy their protective effect on employment as a whole.

The truth is that international trade needs regulation, but not by tariffs. It needs regulation with the purpose, not of reducing it, but of stimulating it by putting it on a satisfactory basis of planned mutual exchange. Countries need to exchange not fewer but more of their products, wherever total productivity can be thereby increased; but they can afford to exchange more only if they can be assured that their exchanges will balance out, not country by country, but at a high level over the world market as a whole.

[1] See Part V, Chapters I and II.

Of the exports which advanced countries send out, most go, and should go, to pay for imports. A country can export more than it imports only to the extent to which it is prepared to make loans (or of course gifts, if it prefers) of its own products to other countries. A country can export more than it imports to the extent to which it, or its citizens, will invest abroad. But, of course, foreign investment, unless it takes the form of gifts, involves repayment later. Accordingly, a country which wishes to export more than it imports must either be prepared subsequently to change round and import more than it exports, or must continue to invest abroad on an ever-increasing scale. Great Britain had reached by the first World War the stage of receiving imports for which no exports were sent out in return. These were payments for past investments; and in the years just before 1939 Great Britain was not only consuming in imports the interest and dividends on British overseas investments, but was also eating up the capital at the rate of £40–£50 millions a year. There was nothing alarming about this. It did not mean that Great Britain was "living on its capital"; for new investments at home much more than balanced the loss of invested capital overseas. What it did mean was that Great Britain was acting as a creditor country must act if it does not desire to make fresh overseas investments or to renew abroad all those falling due for repayment. Great Britain was importing more than it exported; and there was no reason, if there had been no war, why it should not have continued to do this for many years.

War, however, has fundamentally altered the position; for the British holdings of capital overseas have been used up, or fully mortgaged, in financing the war, despite the supplies obtained under Lease-Lend; and for the future Great Britain will have to pay for whatever imports are brought in with exports or with current services, such as the services of British ships in carrying the merchandise of other nations. In these circumstances, Great Britain will not be able, at any rate for some time to come, to make large capital loans abroad out of its own resources in the ordinary way of investment; for all the exports British industries are able to produce and sell abroad in the normal way of trade are likely to be needed to pay for current imports, and if there is any surplus most of it will have to go towards paying back both the newly-incurred debt to the United States and the large amounts which are owing to India, to the Dominions, and to other countries which have supplied goods to Great Britain on credit during the war years. Even the sums which Great Britain has

promised to give for colonial economic development, small as they are in relation to the need, will not be easy to find, and could not be found at all unless the colonies were ready to receive them mainly in British-made goods. Broadly, it can be said that Great Britain will be able to make loans to other countries only by sending them British goods which they would not have bought unless the loans had been made—in other words, in the form of *additional* exports, over and above those needed to pay for current imports and to meet outstanding capital claims.

Great Britain and the American Loan

Indeed, as matters stand at present, Great Britain is a heavy borrower on international account. Wartime dislocations involved, in 1946, a huge continuing deficit on the British balance of payments, and this deficit had to be met by borrowing. The American and Canadian Loans of 1946 were negotiated for the purpose of enabling Great Britain to pay for current imports, including supplies needed to maintain armed forces still stationed abroad, and to meet the obligations of occupation in Germany and elsewhere. British exports had been reduced to little more than a trickle during the later stages of the war, when almost the entire resources of the country were required for the war effort; and when, at the termination of actual hostilities, the United States Government suddenly put an end to 'Lease-Lend,' and further supplies of American goods needed to be paid for in cash, a serious situation arose. Huge sterling debts to a number of countries, including the Argentine as well as India and the self-governing Dominions, had been piled up on account of supplies received during the war and not covered by the value of exports; and, though these balances were usable only for purchases in sterling,[1] if at all, the countries affected were not in a position to continue indefinitely sending further goods on credit to Great Britain. They wanted to be able to use at any rate part of their sterling balances in buying goods which they needed for themselves—including capital goods required for their own plans of reconstruction and development; and if they could not get such goods from Great Britain, they wanted at any rate to get them elsewhere, or at least to get imports in return for their current exports. This applied particularly to India, which was by far the largest sterling creditor; but it also applied elsewhere.

Canada, having experienced great economic expansion during the war, was in a position to be generous in extending further credit; and the Canadian Loan of 1946 was of material help to

[1] Some of them were released under the British-Argentine agreement of 1946.

Great Britain in meeting the bill for food imports, including deliveries to Europe on behalf of U.N.R.R.A. and in connection with the British occupation of Western Germany. But what was needed above all else was a large loan of American dollars; for a considerable part of the imports needed by Great Britain could come, in the state of the world at this time, only from the United States. Up to 1939, Great Britain had met a large part of its bill for American goods by acting as supplier to the United States of Malayan tin and rubber and of other colonial products, and had paid for these goods, as far as they had to be paid for overseas, with British exports to the areas in which they were produced. With Malaya and other Asiatic territories mainly out of action as a consequence of Japanese occupation and wartime destruction of productive capacity, there was no way for Great Britain to cover the cost of necessary imports from the United States or from any country which demanded payment in cash or in free foreign exchange. Even payment in British exports was necessarily on a limited scale, because of the time needed for getting British industry switched over from war production to a peace footing.

In anticipation of this extreme strain on the British balance of payments, the British Government had opened in 1945 formal negotiations for a big American loan designed to tide the British economy over the period during which it was plain that exports could not possibly suffice to pay for necessary imports; and after long and difficult negotiations, followed by protracted debate in both Houses of the United States Congress, a loan was at length granted in the summer of 1946. The terms included a favourable settlement of outstanding obligations on account of Lease-Lend transactions after the termination of the fighting; and the interest charge and the conditions of repayment were not unreasonable—on the assumption that the loan was to be made on an orthodox commercial basis. The total sum involved was $4,400 millions, of which $650 millions were in respect of outstanding obligations and did not provide any fresh credit. The remainder, $3,750 millions, was a total that could be drawn upon as required to meet Great Britain's current need for dollars, on the condition that no part of it was to be used in meeting existing sterling debts. The interest rate was put at 2 per cent.; but no payment was to be made until 1951. Thereafter, the entire debt of $4,400 millions was to be wiped off by the payment of fifty annual instalments, including both interest and principal, with the proviso that the interest, but not the repayment of capital, should be waived if in any year it could be shown that the combined proceeds from British exports, visible and invisible, had been on the average of

the preceding five years inadequate to pay for imports at the average level of the years 1936–8.

In the first instance, the British negotiators in Washington had asked for an interest-free loan, as a contribution to facing the task of recovery from the dislocation of war. This had been felt to be not unreasonable in view of the part played by Great Britain in holding back the Germans before the Americans came into the war, and also in view of the effect of the war in enriching the United States, while it greatly impoverished Great Britain and other European countries. This request for a loan on a non-commercial basis turned out to have been a bad mistake; for it opened the door wide to American attempts to impose conditions on British economic policy. The interest was not a very serious matter, in the sense that Great Britain was nearly as likely to be able in course of time to repay with interest as without. It soon appeared that the Americans were in no mood to consider a loan free of interest; and they also drove the hardest possible bargain in respect of the conditions which they attached to the loan, as if it were a favour which entitled them to expect a very great deal in return.

International Monetary Conditions

The conditions, or rather, the more important of them, fell into two groups—monetary and commercial. On the monetary side, the Americans were determined to do everything they could to restore an international currency system resting on a gold standard. They wanted all countries to pledge themselves to stabilise the gold values of their several currencies within narrow limits, and to depart from these values, outside the suggested limits, only with the consent of an international monetary authority on which the Americans would themselves have a very influential voice. These proposals were embodied in the monetary part of the Bretton Woods Agreements of 1944; and the American negotiators made it a condition of the loan to Great Britain that the British Government should ratify the Bretton Woods Agreements and should thus bind itself to accept international regulation of monetary policy. Beyond this, the Americans used the occasion presented by the loan negotiations to stiffen up at the expense of Great Britain the requirements of Bretton Woods, by insisting that the British Government should make an end of its control over foreign exchange in respect of current transactions within one year of the loan coming into force, and not merely within five years, as the Bretton Woods Agreements had laid down. The necessity of continuing control over capital transactions, and of

dealing separately with the huge accumulated sterling debts blocked in London, was recognised; but it was made a condition of the loan that Great Britain should terminate the 'dollar pool' which had been established during the war to regulate dollar payments from Great Britain and other empire countries, and that full freedom of exchange on current account between the pound and the dollar should be restored.

Obviously, these monetary conditions imposed very serious obligations on Great Britain. They made it impossible to use monetary regulation as an instrument for maintaining a policy of full employment in Great Britain in face of any world depression that might set in as countries settled down after the war, and in particular in face of any future slump or crisis in the United States. It is true that the American and British Governments were both pledged to follow policies of high production and employment; and on this basis the Americans argued that the occasion for protective currency measures designed to offset depression in the United States would not arise. It is also true that the Bretton Woods Monetary Agreement included a provision, called the 'scarce currencies clause,' under which the directors of the International Monetary Fund created under the Agreement could declare any currency to be 'scarce' in relation to the demand for it. If and when this is done, countries adhering to the Agreement are allowed to impose control over the supply of that particular currency by their Central Banks. This procedure, however, can be applied only under the authority of the directors of the International Fund, and for as long as they regard it as necessary. In practice, it could hardly be applied, under the Bretton Woods Plan, without the consent of the Americans themselves.

America and Multilateral Trading

Clearly, without the aid of a large loan from the United States, it would have been out of the question for Great Britain to accept the obligations of the Bretton Woods Plan; for there would have been no possibility of allowing free conversion of pounds into dollars. This conversion means not only that anyone in Great Britain is free to demand dollars in exchange for pounds for the purposes of any current transaction, as distinct from a capital transaction, but also that all foreign sellers of goods in the British market can claim to be paid in dollars instead of pounds, and can thus use the proceeds to buy American instead of British goods. The assumption, of course, is that under this system the international accounts of the various countries will in fact balance on

the basis of what is called 'multilateral' trade, i.e. that if one country buys more from another than it sells to it, it will be selling to other countries more than it buys, in such a way that the pluses and minuses will all cancel out. Thus, Great Britain, as we have seen, used to pay for imports from America partly in Malayan tin and rubber, by sending exports of British goods to Malaya, or out of the profits due to British holders of Malayan investments. The contention has always been that this system of free, multilateral trading, subject only to such tariffs on imports as each country chooses to impose, aids the international division of labour and thus makes the world as a whole richer than it could be if trade had to balance 'bilaterally,' i.e. if each country had to import from each other as much as it exported to it, subject only to differences arising out of such factors as transport and interest due on foreign debts. This is the American version of the traditional 'free trade' argument, modified in such a way as to allow countries to impose tariffs on imports while preventing them from resorting to monetary controls. The Americans also seek to exclude all forms of what they call 'discrimination' by means of quotas or licensing systems; but this part of the American thesis can best be considered in connection with the commercial conditions attached to the American Loan.

These conditions formed no part of the Loan Agreement itself. They were embodied in a quite distinct set of "Proposals" put forward by the United States Government for presentation to a World Conference on trade and commercial policy, to be summoned under the auspices of the United Nations. The "Proposals" as such bound nobody: they were merely an American document for consideration by the Conference when it met. The United States Government, however, insisted that as a condition of receiving a loan, the British Government should express its agreement with the "Proposals" on all important points and should pledge itself to support them at the World Conference "in the spirit and in the letter." A signed declaration to this effect was attached to the published text of the "Proposals"; and the British Parliament, in endorsing the terms of the loan, consented to this declaration, which thus became binding on Great Britain.

America as Lender

Before attempting to consider the American "Proposals," we must go back a little and consider the general background of the American economy out of which they came. As we have seen already, the only country which at present has the power to make large capital loans to the rest of the world is the United States,

which has both immense gold reserves and a capacity to export far more goods than are needed to pay for indispensable imports. The United States, by lending gold or dollar credits to other countries, can enable them to buy in the world market imports which they would otherwise be unable to afford. To the extent to which such purchases are made in the United States, the loans, even if made in gold or free foreign exchange, will be converted into exports of American goods: to the extent to which they are made elsewhere, the countries from which they are made will acquire the power to purchase American goods. Because of the heavy demand for such goods, the loans will all be represented, in the last resort, by American exports, including such gold as does not flow back into American bank vaults. American power to lend, like British power during the last century, is based on the capacity to export more goods than are needed to pay for current imports.

United States Commercial Policy

The Americans can of course, if they wish, instead of lending abroad, buy more goods from other countries. They are, indeed, in a position to import more than they export, not only because they can use their surplus gold for this purpose, but also because they are already creditors, entitled to receive interest and dividends on existing investments abroad. But American imports are restricted both by the high degree of self-sufficiency of the American economy and by the American tariff, which is designed to keep out products that would compete with those of American firms. The President of the United States has indeed been empowered by Congress to negotiate commercial agreements involving a reduction of tariff duties up to a maximum of 50 per cent.; and this temporary power has recently been renewed for a further period. There is strong opposition to it from some American manufacturing interests; but American public opinion, or at any rate progressive opinion, cannot help recognising that other countries cannot pay what they owe America, either on capital account or in return for current American exports, except in goods, and that the high American tariff is inconsistent, not only with the expansion of American export trade, but also with the meeting of foreign obligations arising out of American investments abroad. No doubt, by lending to foreigners on an ever-increasing scale the Americans can always balance their international accounts, no matter how big their export surplus may be; but this comes in effect to going on lending the money to pay for their exports, and never getting anything

back in return, except titles of ownership. In the long run such a process is bound to invite repudiation; and, short of that, it involves crisis over the whole world at any moment when for any reason Americans stop making the foreign loans that are needed to make the current transactions balance.

This is the more serious because of the extreme instability of American economic conditions. The will on the part of American citizens to lend abroad enough dollars to balance the account may fail either because of a boom in the United States or because of a slump. An American boom may appear to offer better profits from investment—or speculation—at home than can be expected from investment abroad: an American slump may lower the willingness to invest either at home or abroad to a very low level. But if the American balance of payments is precariously sustained by a high level of foreign investment, a sudden withdrawal from this field is bound to lead to a crisis, and to deprive other countries of the means of paying for imports from the United States.

That is why the more far-sighted Americans realise the need to increase their imports, despite the protests of protected American manufacturers, who talk about the necessity of safeguarding the American standard of life. It is easy to show that the American people cannot really be enriching themselves by sending out exports and not receiving imports in return, though of course a number of American capitalists may in this way be acquiring valuable capital holdings abroad. But it is not so easy to convince even American workers that they would benefit by the admission of more foreign products. The workers fear the competition of products made abroad by cheaper labour; and maybe they are right to fear it *as long as there is no assurance that American employment will be maintained.* It is only under a policy which guarantees full employment that the argument against admitting foreign goods made with the aid of cheaper labour loses its force; and unfortunately, despite the brave words of a number of American statesmen, the United States seems a long way off the adoption of a consistent policy of full employment.

It seems a long way off, because sustained full employment is not possible without a large measure of state intervention, including the planning of investment and consumption and the strict control of monopoly practices and of all forms of profit-seeking restriction of output. There are forces in America that are working to this end; but there are also very powerful forces on the other side, including a large section of the Democratic leadership as well as the major part of the Republican leadership. The return in 1946 of a Republican Congress has already made it much less

likely that the tariff will be effectively reduced, or other protective devices really given up; and the accession to power of a completely Republican Administration would very likely mean not only a reversal of what is left of the Roosevelt New Deal in home policy, but also a return to higher tariffs under pressure from the manufacturing interests which largely dominate the Republican Party.

America must Lend

This is a perilous outlook both for the American working classes and for the rest of the world, and it makes those who have to shape the policies of other countries naturally shy of putting themselves more than they must at the mercy of American economic fluctuations. Yet other countries must have capital for development, if they are to escape from the extremes of poverty; and only the Americans are in a position to supply this capital on the large scale required. It is therefore argued that it is necessary to take risks, arising out of the instability of American economic life, and to incur obligations to the United States which the vagaries of American economic policy may make it very difficult to meet. Great Britain must be prepared to take a certain share in these risks, but it is clear that this risk-taking cannot go to the extent of incurring debts to America for money borrowed for re-lending to other countries. Great Britain is under the necessity of borrowing so much to cover its own import needs that it can by no means afford to borrow still more for lending to others. It could not do so, even if the Americans were prepared to lend for this purpose. Accordingly, the Americans will need to make their own foreign investments directly, and not through Great Britain as intermediary; and Great Britain will have to rely on getting a share in the orders which will flow out from the countries in which the investments are made. At the best this will mean that Great Britain will have to supply capital goods to countries which are in a position to pay for them out of American loans, and will be able to use some of the proceeds to pay for British imports from the United States.

This of course implies that the American lenders will not tie their loans, so as to compel the borrowers to spend them on direct purchases of American goods. If this were to be done, Great Britain, unable to sell to the borrowers, would have to reduce purchases from the United States and to take, at whatever disadvantages, to more autarchic economic policies, and to pushing British exports, within the limited possibilities, by similar means. The result would be a general spread of bilateralism, to the

common disadvantage of the whole world. There are American exporters who are eager for such a policy, and in fact many American commercial loans have been tied in this way. Up to the present, this has not greatly mattered, because the demand for American goods has been insatiable, within the limits set by the means of paying for them, and because in fact other countries have not had much to sell. If, however, the 'tying' of American loans is persisted in after there has been a recovery in the exporting capacity of other countries, the effect can only be to compel these countries to resort to measures that will allow them to prevent their exports from being pushed out of the markets of the world. They will have to resort to bilateral trading arrangements as the only way left open to them of paying for the imports which they must have in order to feed their peoples and keep their industries supplied with necessary materials. The United States Government, however, expresses the strongest hostility to 'bilateralism' in all its forms—except the forms of tied loans which it may desire itself to practise. This opposition extends to demanding from other countries a pledge that they also will abstain from any sort of bilateralism in their commercial policies.

'Mutual Aid' and 'Discrimination'

The clearest declaration of this policy, up to the "Proposals" of 1945, was to be found in Clause VII of the Mutual Aid Agreement reached between Great Britain and the United States in February, 1942. It was there laid down that the conditions of mutual aid between the signatories "shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations." The clause continues: "To that end they shall include provision for agreed action by the United States and the United Kingdom, open to participation by other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods; to the elimination of all forms of discriminatory treatment in international commerce and the reduction of tariffs and other trade barriers; and in general to the attainment of the objectives set forth in the Atlantic Charter."

There had been, before the appearance of the American "Proposals" of 1945, much dispute about the precise meaning to be attached to these words. Did they or did they not, it was asked, rule out either (*a*) empire preferences, or (*b*) bulk purchase agreements between countries involving an exchange of goods against

goods, or (*c*) other agreements whereby two or more countries might undertake to buy certain quantities or values of one another's products and to open credits in one another's favour for this purpose? Were such practices as these to be regarded as 'discriminatory,' and therefore condemned? And had the provisions of Clause VII any bearing on proposals to lend capital on the condition that the sums lent, or a part of them, should be spent exclusively on the products of the country whence the loan came?

These questions were not easy to answer, and different answers had been given by spokesmen in the two countries. In Great Britain Parliament had been officially told that there was nothing to prevent the continuance of imperial preferences, the making of bulk purchase agreements, or the maintenance of closer economic relations with empire countries than with the rest of the world. But it was not clear how far we were entitled to go without violating Clause VII. On all these issues the "Proposals" were a great deal more explicit than Article VII. They opened, like Article VII, with a preamble relating them to a general framework of measures needed to maintain "high and stable employment" and pledging each country to "take action designed to achieve and maintain full employment within its own jurisdiction, through measures appropriate to its political and economic institutions"; but from this hopeful but unspecific opening they went on to a series of positive proposals which opened up very serious prospects for other countries. The first of these set out clauses coupling together the "substantial reduction" of tariffs and the "elimination" of tariff preferences, which meant that acceptance of the "Proposals" required Great Britain to give up empire preferences absolutely, though it did not require the United States to give up its tariff, or even to reduce it to any specified extent. Next came a general denunciation of "quotas, embargoes, or other quantitative restrictions"—in other words, of non-tariff methods of regulating international trade. Import quotas were still to be allowed in connection with agreed schemes of international commodity regulation, or for getting rid of temporary gluts of agricultural products; but it was laid down that quotas of the latter kind must include restrictions on home production as well as on imports, and also that all quotas must be "non-discriminatory"—that is to say, must be "allocated fairly, on the basis of imports during a previous representative period." This meant that quotas might not be used for the purpose of increasing trade between empire countries, or in the 'sterling area,' or in Western Europe as a regional group, and that no use might be made of them to relate purchases of imports to the quantities of

exports from the importing country which the exporting countries were prepared to receive in exchange. The "Proposals" then went on to insist that, where the State itself entered into trade, through a "state-trading organisation," all transactions must be made on the same "non-discriminatory" basis, and to bind such organisations to place their orders solely on "commercial" principles, without seeking to use their powers to build up any reciprocal trading connections with other countries. Thus, it was laid down that the State, if it entered into trade, must behave in an entirely capitalistic fashion, and must not resort to any measures of international Socialist planning or to any regional trading system.

Next followed restrictions on export subsidies; and then came certain exceptions relating to the drug traffic and the traffic in arms, which do not concern us at this point. The "Proposals" then went on to rule out any special trading relations between metropolitan and colonial territories, and to make an exception, under conditions which were left undefined, in favour of absolute 'Customs Unions,' uniting two or more neighbouring countries into a single tariff area. The next section proposed international and national action to curb restrictive practices on the part of business combines; and the next after that dealt with International Commodity Agreements for the regulation of the output of and trade in primary products. Finally, there was a series of clauses dealing with the constitution of an International Trade Organisation within the framework of the United Nations, parallel to the other specialised international agencies already set up to deal with Relief, Food and Agriculture, Education and Monetary Regulation. These "Proposals" were submitted in an amended form to the Preparatory International Trade Conference which met in London in the autumn of 1946; but the essential points remained unchanged.

The professed purpose of the American "Proposals" was of course the restoration of a complete system of multilateral trading, to which all the United Nations would be bound by adherence to them. Few will deny that multilateralism in trade has great advantages, or that it would be a calamity if each country had to aim at a bilateral balance of trade with every other. The assumption, however, that underlies the advocacy of entirely unregulated multilateral trading is that, under that system, each country will in practice be able to achieve a balance in its trade relations as a whole, by finding enough purchasers somewhere for its exports to pay for the imports which it needs. If this cannot be done at the existing prices, the multilateralists argue, the reason must be that

the prices which a country is charging for its exports are too high. A country so placed, they say, should reduce its prices and thus capture a larger market. But what is to happen if the demand for the country's exports turns out to be so inelastic that the reduced prices do not lead to any considerable increase in sales? And, again, is a country to be expected to reduce its export prices at the cost of cutting wages and producing conditions of internal depression? It may very well be the case that a country which exports mainly primary produce may be quite unable to expand its markets to any substantial extent by reducing prices; and the same thing may be true of a country which exports capital goods, especially if it is in competition with another country that is in a position to supply such goods on credit, whereas it needs cash to pay for current imports.

It is, of course, obvious that a system of multilateral trading is of advantage to a country such as the United States, with its vast financial resources and its system of uncontrolled capitalist enterprise. At least this is obvious up to the point at which multilateralism, by ruining less prosperous countries, would begin to react on the total market and thus to limit American sales. The Americans have a way of assuming that whatever suits them is bound to suit everyone else, and is indeed the only proper and virtuous course for anyone to follow. This is less evident to countries which, unlike the United States, have difficulty in paying for the imports which they must have in order to maintain their standards of living and keep their peoples employed. Great Britain, for example, has within the next few years to find enough buyers of British exports (*a*) to pay for current imports, (*b*) to meet instalments due on the American loan, and (*c*) to begin paying off the sterling debts to India and to other countries that have been accumulated during the war. Can this be done unless Great Britain is left free to make special trade bargains that will ensure the ability to make direct payment in British products for a substantial part of the imports required? In effect, can Great Britain afford to dispense with imperial preference or with close trading relations inside the 'sterling area,' or with the power to make bilateral bargains, or to use state purchasing schemes as instruments for directing purchases to the countries which it is easiest to repay? I am not suggesting that *all* British purchases should be, or need be, conducted on these principles; but the freedom so to conduct *some* of them, in order to reduce the demand for dollars, may surely be indispensable if crisis and default are to be avoided.

Full Employment and Its Relation to World Development

If the major countries concerned with world trade and investment—above all, if both Great Britain and the United States—succeed for the future in maintaining full employment and in avoiding inflationary booms, the situation will be very much less difficult than if they fail in this. If full employment is maintained, the demand of the United States for imports will be large, even if the tariff remains high; and, in the absence of a speculative boom at home, Americans will possibly be ready to make abroad, at any rate for a time, enough investment to offset their surplus of exports and to cover the sums due to them from the debtor countries. In such a situation, Great Britain will be in a good position for finding export markets, provided that British industries are efficiently run and there is no waste in the merchanting processes. Full employment without inflation in the leading countries will create a buoyant economic position throughout the world; and there will be much less need for any country to protect its balance of payments by measures which may be regarded as constituting 'discrimination.' But this holds good only as long as full employment is maintained evenly, and tendencies to speculative boom are kept firmly in check. The chances of this happening in Great Britain depend on the existence of a strong Government, prepared to intervene actively and to deal promptly with monopolists and profiteers. They depend on the same factors in the United States, with the difference that even the strongest Government will there find itself faced with much stiffer opposition, not only from powerful interests hostile to state control in any form, but also from the highly speculative temperament of the whole American investing public. The recent course of American politics and the recent trends of public opinion in America alike suggest that the current is setting strongly the other way.

British Commercial Policy and Overseas Investment

It would be folly, in face of the uncertainties about American policy and practice, for Great Britain to accept obligations which might put it quite beyond British power to balance incomings and outgoings on international account. There will be no desire in Great Britain to press bilateralism an inch further than is necessary in order to safeguard the power to pay for necessary imports and to meet other outstanding obligations. But in face of the inevitable difficulty of exporting enough to meet current bills for imports and gradually to repay the short-term debts accumulated during the war—to say nothing of the instalments on the

American loan—Great Britain must reserve the power to make bulk purchases of necessary imports on mutual trading terms. Moreover, if Great Britain is to take any considerable part in providing capital loans to meet the needs of backward countries, especially in the colonial empire, power must be retained to earmark at any rate part of the loans for purchases of British goods. Great Britain will not be in a position to dispense with these powers: it is simply not practicable, in face of a strained exchange position, for Great Britain to make sterling loans which the borrowers can convert at will into dollars, to be used for buying American goods.

In other words, however explicitly the British Government may have promised to support the American "Proposals" at the World Trade Conference which is due to meet in 1947, it will be impracticable for Great Britain to carry out the obligations involved unless the United States maintains so high a degree of prosperity as to keep its demand for imports at a very high level and at the same time shows a sustained willingness to lend, in the form of long-term foreign investments, any surpluses that may accrue to it on trading account. Given these conditions, it might be practicable to accept the full obligations of multilateral trading, over and above those accepted at Bretton Woods in the monetary sphere. Unless these conditions are fulfilled, the thing simply cannot be done, either by Great Britain or by any other country which is at all similarly placed. An enormous risk has therefore been taken in agreeing to accept the combined obligations without any real guarantee that the Americans will not, before long, plunge headlong into another slump, or refuse to make untied foreign loans on a sufficient scale to prevent the rest of the world running out of dollars.

No doubt, many of those who voted in Parliament for acceptance of the conditions attached to the American loan were alive to this danger, but relied on its failure to become actual because they felt confident that other countries would certainly reject the American "Proposals," even if Great Britain joined with the United States in pressing for them. This was very likely a correct anticipation. Indeed, the proceedings at the Preparatory Conference in London, which considered the American plan in the autumn of 1946, made it clear that the "Proposals" were most unlikely to be accepted in their original form, and that other countries were disposed to insist on the promise to take measures to maintain full employment being regarded much more seriously than the United States Congress seems disposed to regard it. It is, to say the least, most unlikely that the "Proposals" will be accepted

at the World Conference in anything like their original form. The Dutch and the French will obviously take strong objection to the clauses which forbid any special trading arrangements between metropolitan and colonial territories. The Soviet Union, which refused to take any part in the preparatory discussions, will certainly refuse to accept the proposed restrictions on the policy of state trading organisations. There will be opposition to the prohibition of export subsidies and to the banning of regional trade arrangements that fall short of complete Customs Unions. Moreover, the control of Congress by the Republicans, traditionally the "tariff party," makes it unlikely that the Americans themselves will be prepared to lower their tariffs enough to induce other countries to make the large concessions which are being demanded of them. At the London Preparatory Meeting, it was decided that the next step should be a process of separate negotiations between the Americans and other countries on particular duties; and discussions on these lines are about to open in Geneva as I write. In the event, the opposition of other countries may rescue Great Britain from the necessity of following a commercial policy dictated by American interests—a policy which it could not implement without serious risk of disaster and unavoidable default.

Even if all goes as well as it can possibly go in these respects, Great Britain's power to make any substantial contribution to the development of the backward countries depends, even in the long run, on the achievement of a high standard of efficiency in the British exporting industries and on better organisation of export trade. Unless these are achieved, it will be impossible to pay for necessary imports—much less to have a surplus for overseas lending. Accordingly, it is indispensable for the British people both to tackle the problems of the basic industries—fuel and power, transport, steel manufacture—on which the costs of other industries depend—and also to bring down costs in the manufacturing industries which have the best prospects of success in export markets, as well as to cut out every redundant selling cost. The overhead costs of marketing British exports have hitherto been for the most part much too high. There have been too many merchants, placing too small orders, and insisting on a diversity of specifications which has unnecessarily raised factory costs. There will need, also, to be special arrangements for export credits, based on the arrangements adopted between the wars, but on a considerably greater scale. The Export Groups formed for the purposes of the export drive of the earlier war years will have to be redeveloped on a permanent footing and brought under proper

control as agents of a planned foreign trade policy; and there will have to be a central authority under the Board of Trade to formulate this policy and to co-ordinate the various bodies responsible for its detailed execution.

The International Bank for Reconstruction and Development

Capital for world development, however, will need to come much more largely from the United States than from Great Britain, because the United States is in a much better position to supply it. This is recognised in the proposed structure of the International Bank which has emerged from the Bretton Woods Conference, as the complement to the new International Monetary Fund. This Bank is, in effect, the agency through which it is planned to canalise the process of American investment abroad, as far as this process is to be canalised at all. It is therefore important to scrutinise carefully the conditions which are intended to govern the Bank's work.

The International Bank for Reconstruction and Development has been established with an authorised capital of 10,000,000,000 dollars, of which at the outset only 2,000,000,000 dollars have to be paid up. This capital is made up of national 'quotas,' assigned to each participant country, and is payable as to one-tenth in gold and the rest in the country's own currency, except that countries devastated or impoverished by enemy occupation need not be required to make any payment in gold. The Bank's capital is to be available for making long-term capital loans; but this is to be done only where the would-be borrower cannot get the capital elsewhere on reasonable terms. In other words, the Bank is not to be allowed to become the competitor of private financial enterprise, except where private enterprise seeks to extort what the Bank regards as exorbitant terms. The Bank is, however, authorised not only to make loans, subject to this condition, but also to guarantee loans made by other agencies; and this is evidently intended to be its main method of operation—for loans of two, or even of ten, thousand million dollars would clearly not go far by themselves. This power to guarantee loans is hedged in by the condition that the loans must be guaranteed in turn by the Government or Central Bank of the country for which the loan is raised; and there is again the proviso that the International Bank shall act only when it is satisfied that "the borrower would be unable otherwise to obtain the loan as reasonably." It is further laid down that "the Bank shall impose no conditions that the proceeds of a loan shall be spent in the territories of any particular member

or members." The Bank is to make a charge of 1 or 1½ per cent. for guaranteeing any loan, and this charge will of course be additional to the interest payable to those who provide the money.

Will this machinery work? Will the Bank be in a position to help poor countries to raise the capital they need at interest rates which they can afford to pay? Obviously, the answer depends in part on the level at which interest rates are allowed to settle down in the richer countries, and above all in the United States. In the past, the backward countries have usually had to pay high rates of interest on such money as they have borrowed for development, and this has been a very deterrent factor because of the burden imposed on their public finances. As we have seen, the backward countries need cheap capital: they cannot afford to borrow dear, even if in the long run the capital would be likely to increase their national incomes to a satisfactory extent. Lenders, in view of the poverty of the borrowers, have been disposed to exact high rates to cover risks of default. The guarantee of the International Bank is designed to eliminate this risk, and thereby to facilitate cheaper borrowing. But the rates at which the needy countries can borrow cannot be less than, and are bound in practice to be more than, the rates obtainable from gilt-edged lending at home; and if the home rates are high the rates charged on loans to backward countries will be in most cases sheerly prohibitive. It is therefore a condition of the Bank's success that the Governments of the lending countries, including above all the United States, shall agree to maintain a régime of cheap money for long-term as well as for short-term lending. The only alternative will be for the Governments themselves to make the loans on specially low terms; but this seems to have been ruled out by the provisions which forbid the International Bank to compete with private financial enterprise.

Over and above this difficulty, the new International Bank admittedly made a bad start. Indeed, up to the beginning of 1947 it had made in practice no start at all; and there was an evident reluctance in American quarters to set it going. This was not unconnected with a strong tendency that had developed in connection with the 'tougher' American foreign policy of 1946 to refuse loans to countries of whose political proceedings the United States Government did not approve. Not only did the Soviet Union fail to get the American loan for which it was asking: loan assistance was also being refused to countries held to be too much under Soviet influence, or politically too little in compliance with American conceptions of democratic rule.

All things considered, it would appear unwise to rest large

hopes on the activities of the International Bank, under the conditions laid down in the Bretton Woods Agreement. It will be necessary to resort to much more courageous methods in order to achieve at all rapid progress in the industrial and social development of the backward areas—to place capital at their disposal not on ordinary commercial terms, but at exceptionally low rates and perhaps without any interest charges at all in the early years, until there has been time for the investment to increase the national revenues, and thus provide the means of payment. There is, however, no sign that either the United States or any other country that is in a position to lend is yet ready to follow such a policy of world development, or to depart so far from the limited notions of traditional international finance. The proposed International Bank is no doubt better than nothing; but under the statutes approved at Bretton Woods, it could by no means be expected to fill the bill, even if its prospects had not been further jeopardised by American insistence on conditions of politico-economic orthodoxy on the part of countries seeking capital from the United States.

Investment Policy in the Backward Countries

The backward countries, then, will be forced to rely to a great extent on their own resources, and can look for only limited help from the richer countries. It follows that it is of the greatest importance for them not to allow any part of such foreign loans as they can get on tolerable terms to be squandered in paying for what they are in a position to produce at home. Foreign loans should be earmarked strictly for paying for goods which have to be imported—especially capital goods which can be made economically only in the advanced countries. This means that a large part of development expenditure in the backward countries will need to be covered by internal loans or by taxation—or, of course, by internal bank credit, which is itself a kind of loan. It also means that in many instances simpler methods will have to be preferred, even where a job could in theory be done more economically by more advanced methods requiring heavier external finance. That is one reason why, in general, roads are to be preferred to railways for improving internal transport, and why it may be better in many cases to encourage relatively simple establishments for making consumers' goods than to set up great modern factories equipped with expensive machinery from abroad.

In Europe, as we have seen, reparations deliveries of plant from

Germany may be able to contribute a little to the work of reconstruction and development; and in Asia it may be possible to exact a similar contribution from Japan. But these contributions cannot in any event be large in relation to the requirements; and, in general, the key factor will be the resourcefulness which countries show in mobilising their own man-power for capital construction, in much the same way as the Soviet Union performed miracles by harnessing its own resources to the task. Clearly, these resources of the backward countries can be used much more effectively if neighbouring countries act in close collaboration than if each country acts alone. For each country can do better if, by pooling with its neighbours, it gets the advantage of specialisation and of a larger market for each commodity of which it develops the production.

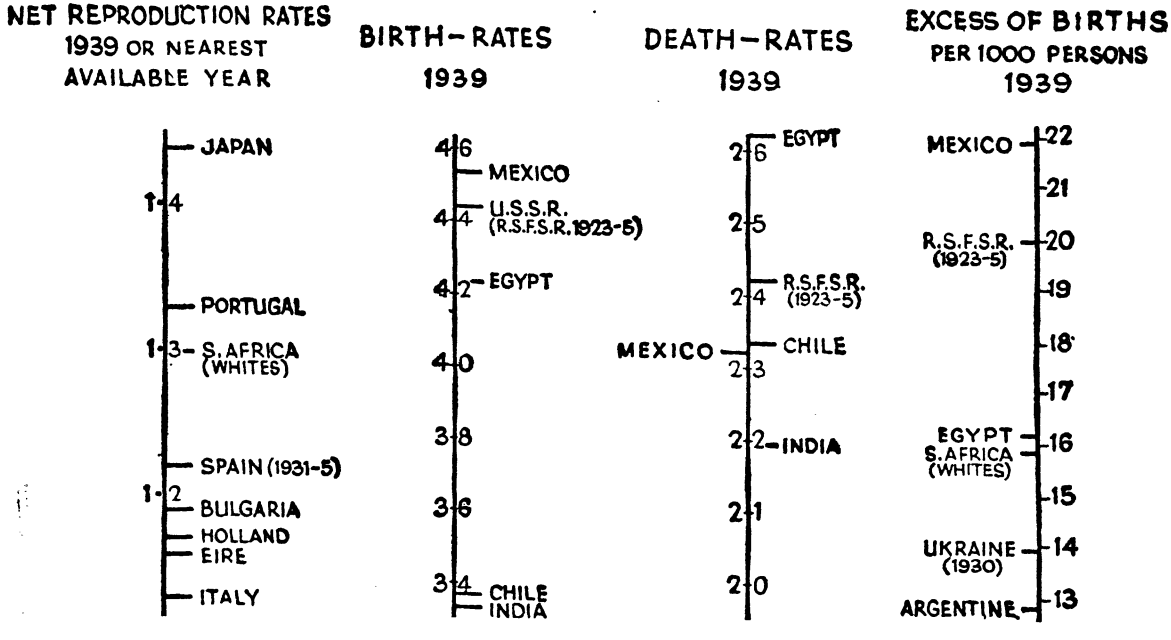
Investment in Health and Education

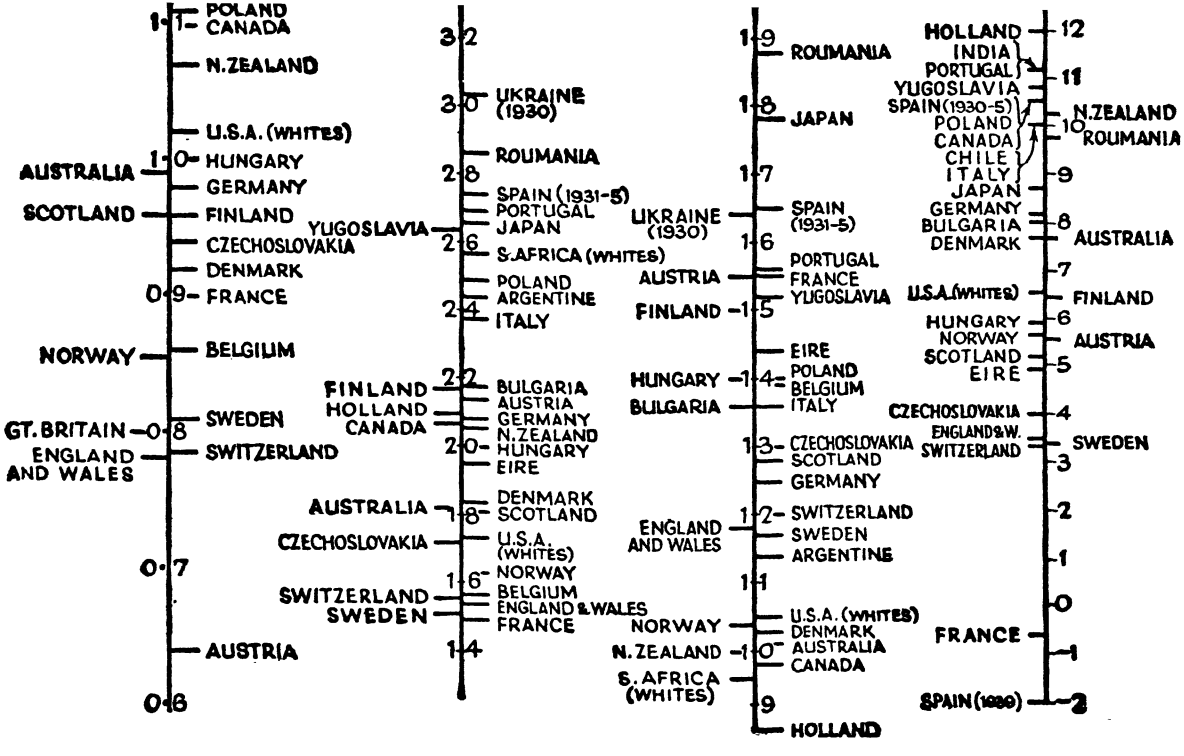
It is important not to conceive too narrowly the range of development projects of which the backward countries stand in need. Health services and education, though they yield no direct money returns, are fully as vital for the advancement of the national income as the development of agricultural and industrial production by direct means. Moreover, there is a field in which the help that can be rendered by the more advanced countries need not be limited by the difficulties of foreign investment in the ordinary sense. The backward countries badly need teachers and instructors, both in general and in technical education. They need skilled supervisory workers for advanced industries and services, and scientific advisers in almost every field. They cannot, however, afford to pay such persons the salaries which professionals and skilled technicians from advanced countries are accustomed to demand as the reward for expatriation, often to uncongenial and sometimes to unhealthy environments.

A Task for the New World Economic and Social Council

There would be very much better hope of organising on tolerable terms such technical, health and educational services as the backward countries stand in need of, if the task could be taken over by an international body and if the workers in the service could be given the status and the security of an international civil service working directly under the auspices of the new United Nations Organisation and its Economic and Social Council. It should be one of the functions of the new Organisation to undertake on a much larger scale, and for all backward areas, the kind

VITAL STATISTICS OF THE WORLD - 1939




1·1 POLAND
CANADA
N.ZEALAND
U.S.A. (WHITES)
1·0 HUNGARY
AUSTRALIA
GERMANY
SCOTLAND
FINLAND
CZECHOSLOVAKIA
DENMARK
0·9 FRANCE
NORWAY
BELGIUM
GT. BRITAIN
0·8
SWEDEN
ENGLAND AND WALES
SWITZERLAND
0·7
AUSTRIA
0·6
3·2
3·0 UKRAINE (1930)
ROUMANIA
2·8
SPAIN (1931-5)
PORTUGAL
YUGOSLAVIA
JAPAN
2·6 S.AFRICA (WHITES)
POLAND
2·4 ARGENTINE
ITALY
2·2
FINLAND
BULGARIA
HOLLAND
AUSTRIA
CANADA
GERMANY
N.ZEALAND
2·0 HUNGARY
EIRE
DENMARK
AUSTRALIA
1·8 SCOTLAND
CZECHOSLOVAKIA
U.S.A. (WHITES)
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SPAIN (1930)
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of work that was done in a small way through the League of Nations Health Organisation. With modern means of air transport, there should be no difficulty in giving the members of such an international service frequent spells of leave at home—a factor which would be enough by itself to make the recruitment of good men and women very much easier. An international service, officially organised, would also for other reasons be recruitable more cheaply than is possible when the conditions are set by the terms offered by great capitalist concerns; and it is probable that a large element of idealism would further aid recruitment as soon as there were signs that the job of world development was really being tackled in a workmanlike way. The scheme could be expanded, given the right nucleus of full-time officers, by arrangements for the exchange of teachers and skilled workers for periods of service in each other's countries; and a large plan for university and technical college scholarships for students from the backward countries could be developed in connection with it. All this, however, hangs on the condition that the Governments of the advanced countries, acting through the Economic and Social Council of the new World Organisation, shall really mean business and set out on a large-scale attempt to bring the backward areas into touch with modern scientific and technical methods.

Practicality and Idealism

It is not easy, at this point, to be sure where practical commonsense leaves off, and impracticable idealism begins. The experience of the Soviet Union shows that it is fully possible for a country, even with hardly any outside help, to lift itself out of backwardness and illiteracy at an extraordinary rate, though not without great difficulties and sufferings in the process. With even moderate help, the sufferings should be largely avoidable, and the difficulties very much less. If to suggest what I have suggested in this chapter verges anywhere on impracticable idealism, the reason does not lie in any technical impracticability in what I have urged, but solely in political impracticability. If I have proposed more than can be done, it is because I have not allowed enough—though I have allowed a great deal—for the incapacity of mankind to face in common the essential tasks in which they have, demonstrably, a common concern. This political aspect of the problems of internationalism and world development will be discussed further in the next section. In the meantime I set at the end of this chapter[1] a simple table showing the statistics of life and death, where they exist, for the chief countries of the world.

[1] See pp. 994-5.

Nothing shows more clearly than these figures the gulf which separates the more advanced from the more backward communities; and nothing more clearly demonstrates the need for world action to bring the nations closer together in their opportunities for health, wealth, and common enjoyment of living.

NOTE: This book was finished and in print before the fuel and weather crisis swept over Great Britain in the early months of 1947. That crisis, in part the outcome of the incredibly incompetent handling of the British coal-mines over a long period of years, and in part due also to defective planning by a Government more attentive to long-run than to short-run problems of economic policy, was mainly a matter of sheer bad luck. It hit Great Britain at a critical moment in its attempts at reconstruction, on top of the severe blow to British recovery administered by the rise in American prices, which rendered the dollar loan quite inadequate to meet the combined claims of Great Britain, of the British occupation of Germany, and of a foreign policy based on taking an undue share in policing the world in the interests of American as well as British capitalism. The effect of the crisis, whatever its causes, was greatly to weaken Great Britain both internally and as a potential contributor to any concerted policy of world economic development, and proportionately to put yet more power, for good or evil, into the hands of the United States. If I had been writing the foregoing chapters now, after the crisis of 1947, I should not have written them very differently; for I had already taken large account of the extreme precariousness of Great Britain's international economic situation. I should, however, have stressed even more the difficulties of the British balance of payments, and their effect in making it sheerly impossible for Great Britain to play any large part in the provision of the capital resources needed for the development of the world's backward areas. As matters now stand it is plain that, when the American Loan runs out, a further crisis is utterly unavoidable. It is simply not on the cards that Great Britain can be able, next year or the year after, to balance its international accounts—much less to have anything over for helping other countries, or even for paying off outstanding debts. Great Britain will be found suing again for credit, and doing so under most disadvantageous political as well as economic conditions. There will be many who will urge that the situation leaves only one course open—complete acceptance of any terms, political or economic, that the United States may choose to enforce upon us. On that

view, the Loan Agreement of 1945, with its attached conditions, will appear in retrospect as merely the first step towards the conquest of Great Britain by American capitalism. Such a development of affairs will prove quite irreconcilable with the retention of office by any Government set on pursuing a socialistic policy, however mild its Socialism may be. A satellite Britain, held firmly in the clutches of American capitalism, will need a Government acceptable to its masters—and will, before long, undoubtedly get such a Government. But a Government acceptable to the Americans will be entirely incapable of tackling the basic problems of the British economy, which calls for thorough planning and a drastic enforcement of priorities against the insistence of 'free enterprise' on following the profit motive whithersoever it lead. Accordingly, the arguments set forth in this book for the strongest possible production drive, for the mutual planning of international trade on the lines of agreed exchanges with other planned economies, and for the building up of the closest possible relations both with the rest of Western Europe and with the Soviet Union, are immensely reinforced by the severe misfortunes which fell upon Great Britain in the early months of the present year.[1]

[1] Written in March, 1947.

PART SIX

WORLD AFFAIRS

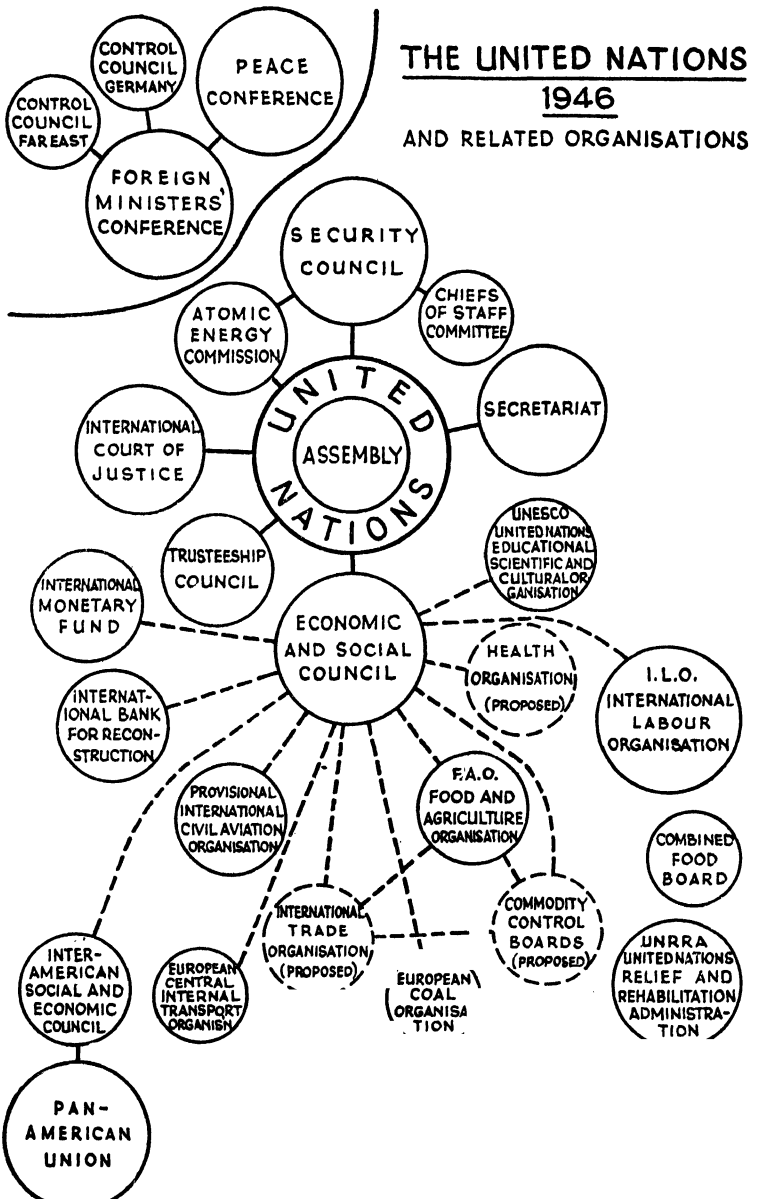
CHAPTER I

THE UNITED NATIONS ORGANISATION

THE PLAN FOR THE United Nations Organisation was worked out at the Dumbarton Oaks Conference of October, 1944, and was amended and adopted at the San Francisco Conference of June, 1945. U.N.O. came into being with 51 States as members, headed by the 'Big Five'—the United States, the Soviet Union, the United Kingdom, France and China. Of the 51 original members, 14, including the Soviet Union and also the Ukraine and Byelo-Russia, which are separately represented, are in Europe; 22 are in America; 9, including Turkey, are in Asia; 4 are in Africa; and 2, Australia and New Zealand, are in Australasia. As U.N.O. was made up exclusively of States which were at war with the Axis Powers (including those which "climbed on the band-wagon" at the last moment), there are notable absentees. In Europe among the countries initially excluded, besides Germany, were Italy, Albania, Iceland and Eire, which have all applied for admission, Bulgaria, Roumania, Austria, Hungary and Finland, and, among neutrals, Sweden, Switzerland and Portugal. Since then Iceland and Sweden have been admitted, and Eire, Albania and Portugal rejected.[1] Spain has been excluded by definite resolution; and such midgets as Monaco and Andorra do not appear to have been considered. In other continents, non-members included, besides Japan, the Mongolian Republic, Korea, Siam, the Yemen, Afghanistan and Newfoundland. Afghanistan and Siam have since been admitted, and the Mongolian Republic refused. Colonial territories, not ranking as self-governing States, are not eligible; and only the Ukraine and Byelo-Russia, among the Republics of the Soviet Union, are represented separately. Some of the countries mentioned may of course have been admitted before these words appear in print: the list of countries given on page 1004 includes only the original members.

Among the member-States five are given a special position, having permanent seats on the Security Council which is the principal executive organ of U.N.O. and is accorded very extensive powers. Each of these five States has, moreover, a practically

[1] Up to the end of 1946.


THE UNITED NATIONS
1946
AND RELATED ORGANISATIONS
CONTROL COUNCIL GERMANY
PEACE CONFERENCE
CONTROL COUNCIL FAR EAST
FOREIGN MINISTERS' CONFERENCE
SECURITY COUNCIL
CHIEFS OF STAFF COMMITTEE
ATOMIC ENERGY COMMISSION
UNITED NATIONS
ASSEMBLY
SECRETARIAT
INTERNATIONAL COURT OF JUSTICE
TRUSTEESHIP COUNCIL
UNESCO UNITED NATIONS EDUCATIONAL SCIENTIFIC AND CULTURAL ORGANISATION
INTERNATIONAL MONETARY FUND
ECONOMIC AND SOCIAL COUNCIL
HEALTH ORGANISATION (PROPOSED)
I.L.O. INTERNATIONAL LABOUR ORGANISATION
INTERNATIONAL BANK FOR RECONSTRUCTION
PROVISIONAL INTERNATIONAL CIVIL AVIATION ORGANISATION
F.A.O. FOOD AND AGRICULTURE ORGANISATION
COMBINED FOOD BOARD
INTERNATIONAL TRADE ORGANISATION (PROPOSED)
COMMODITY CONTROL BOARDS (PROPOSED)
INTER-AMERICAN SOCIAL AND ECONOMIC COUNCIL
EUROPEAN CENTRAL INTERNAL TRANSPORT ORGANISATION
EUROPEAN COAL ORGANISATION
UNRRA UNITED NATIONS RELIEF AND REHABILITATION ADMINISTRATION
PAN-AMERICAN UNION

unlimited right of veto, which extends to preventing any decision from being taken, even on a dispute to which the State concerned is a party. This right of veto has been insisted on especially by the Soviet Union, which has repeatedly exercised it since the Security Council came into actual operation; but the principle of the veto also found support, when the Constitution of U.N.O. was under discussion, in the United States, because the Americans were reluctant to commit themselves to international action which might fail to gain the approval of the United States Congress. It is important to bear this in mind, in view of the strong criticism of the veto that has since proceeded from many sources in the United States.

U.N.O. and the League of Nations Compared

The basis of U.N.O. differs from that of the defunct League of Nations above all in the wide powers given to the Security Council and in the far-reaching recognition of the right of veto. In all matters connected with security and the prevention of war it is, far more than the League ever was, a deliberative committee of the Great Powers, with no power to act unless agreement can be reached among them. The Security Council includes, besides the representatives of the 'Big Five,' six members—that is to say, a bare majority—chosen by the remaining member States; but these other members have no power of veto and are not represented on the Military (Chiefs of Staffs) Committee, which is primarily responsible for organising the military side of the work of the Council. Nor are they, with the exception of Canada, represented on the special Atomic Energy Commission which was set up early in 1946.

In all matters of security, U.N.O. stands for a retreat from the 'idealism' of the Covenant of the old League of Nations. As against this, greater recognition is given in U.N.O. to the need for social and economic collaboration. The League had no regular representative organs, except the International Labour Organisation, for dealing with economic questions, its Financial and Economic Committee being mainly an expert fact-finding body, with no power of action. The I.L.O., cut adrift from the old League, of which it was a part, remains in being under a new Constitution drawn up at its Philadelphia Conference of 1945, and has been accepted, with its tripartite structure, as the instrument of U.N.O. in the field of labour legislation; but its relation to U.N.O. has still to be precisely defined. Side by side with it there now exists the Economic and Social Council of U.N.O. itself, with very wide but so far indefinite functions. The Economic

The United Nations Organisation, 1946

The original members

I. The Big Five

1. China, [1, 2, 3, 4, 5, 7, 9, 10, 11]
2. France, [1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11]
3. Soviet Union, [1, 2, 3, 4, 5, 10]
4. United Kingdom, [1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11]
5. United States of America, [1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12]

II. Other European Countries

6. Belgium, [3, 4, 5, 6, 8, 9, 10, 11]
7. Byelo-Russia
8. Czechoslovakia, [3, 6, 9]
9. Denmark [8]
10. Greece, [3, 6, 8, 11]
11. Holland, [1, 4, 6, 7, 8, 9, 11]
12. Luxemburg, [6, 8]
13. Norway, [4, 5, 6, 8, 9, 10, 11]
14. Poland, [1, 5, 6, 10, 11]
15. Ukraine, [3]
16. Yugoslavia, [3, 6, 10, 11]

III. Other Asiatic Countries

17. India, [3, 7, 11]
18. Iraq, [5, 9]
19. Lebanon, [3]
20. Persia
21. Philippines, [7]
22. Saudi Arabia
23. Syria
24. Turkey, [8, 9]

IV. African Countries

25. Egypt, [1, 9, 10]
26. Ethiopia
27. Liberia
28. Union of South Africa, [4, 5]

V. Other American Countries

29. Argentine, [12]
30. Bolivia, [12]
31. Brazil, [1, 5, 6, 9, 10, 11, 12]
32. Canada, [2, 3, 5, 6, 9, 10, 11]
33. Chile, [3, 9, 10, 11, 12]
34. Colombia, [3, 9, 12]
35. Costa Rica, [12]
36. Cuba, [3, 9, 12]
37. Dominican Republic, [12]
38. Ecuador, [12]
39. El Salvador, [9, 11]
40. Guatemala, [12]
41. Haiti, [5, 12]
42. Honduras, [12]
43. Mexico, [1, 5, 9, 10, 11, 12]
44. Nicaragua, [12]
45. Panama, [12]
46. Paraguay, [12]
47. Peru, [3, 9, 11, 12]
48. Uruguay, [12]
49. Venezuela, [12]

VI. Australasian Countries

50. Australia, [1, 4, 7, 9]
51. New Zealand, [4, 5, 7]

[1] Member of Security Council.
[2] Member of Atomic Energy Commission.
[3] Member of Social and Economic Council.
[4] Member of Trusteeship Council.
[5] Member of Food and Agriculture Council.
[6] Member of U.N.R.R.A. European Council.
[7] Member of U.N.R.R.A. Far Eastern Council.
[8] Member of European Coal Organisation.
[9] Member of International Civil Aviation Council.
[10] Represented on International Court of Justice.
[11] Member of Governing Body of I.L.O.
[12] Member of Pan-American Union and Signatory to Act of Chapultepec.

and Social Council is appointed by, and reports to, the Assembly of U.N.O., on which all the member States are represented. There is no statutory provision in the U.N.O. Charter for any State to have a permanent seat on the Economic and Social Council; but in fact all the 'Big Five' are represented on it, as they clearly must be if it is to stand a chance of success. The Charter leaves it unclear how much the E. and S.C. is intended to undertake directly, and how far it is to work through other, more specialised agencies which the United Nations may set up for particular purposes. It seems to be intended that these other bodies shall play a very important part; and the E. and S.C. is instructed to enter into arrangements with them, and also with the I.L.O., which is on a rather different footing.

'*Specialised Agencies*'

The specialised bodies already brought into existence, including some which are temporary (U.N.R.R.A.) and some which are still only on a provisional basis, include the following:

United Nations Relief and Rehabilitation Administration (U.N.R.R.A.), set up at Washington in November, 1943, for purposes of relief and short-term reconstruction in the liberated countries and among displaced persons in Europe and the Far East. Its operations were later extended to Italy and Austria, and also to Ethiopia, Korea and Formosa. It did not deal with German relief, except on behalf of displaced persons, or with relief in other ex-enemy countries. U.N.R.R.A. was intended to finish its work in Europe by the end of 1946, and in the Far East by March, 1947; but in face of the great continuing need for its services on account of the food shortage of 1946, a strong plea was made by Mr. La Guardia, its Director, and by many others for its continuance beyond these dates, even if the scale of its activities had to be cut down. The refusal of the United States, followed by that of other countries, to vote funds for its continuance, made its liquidation inevitable, even though no alternative agency had been created to fill its place in countries still obviously in urgent need of relief and unable to finance their own supplies. U.N.R.R.A.'s work on behalf of Displaced Persons was in process, in 1947, of being taken over by a special organisation set up for this purpose alone.

International Refugee Organisation, approved by the General Assembly in December, 1946.

United Nations Food and Agriculture Organisation (F.A.O.), set up as an outcome of the Hot Springs Conference of 1943, but

not actually instituted until October, 1945, when it held its first Conference in Quebec. F.A.O. deals, not with immediate relief, but with long-term agricultural planning and nutrition policies. Its Director is Sir John Boyd Orr, the leading expert on questions of nutrition.

United Nations Educational, Scientific and Cultural Organisation (U.N.E.S.C.O.), set up in London in November, 1945, after a preliminary Conference of Allied Ministers of Education held earlier in the year. U.N.E.S.C.O. has its headquarters in Paris, and its Director is Professor Julian Huxley. Its task is to promote international collaboration in the fields of education, science, and culture generally; but its methods of operation have not yet been very clearly defined. It succeeds, but on a broader basis, to the functions of the old League's International Committee for Intellectual Co-operation.

Provisional European Coal Organisation, set up in May, 1945, as a preliminary step towards a more general European Economic Commission under the Economic and Social Council. (See page 1044.)

European Central Internal Transport Organisation, set up provisionally in May, 1945, and reorganised on a broader basis in September, 1945, for the co-ordination of transport arrangements over a wide area. The member States include France, Belgium, Luxemburg, Denmark, Holland, Norway, Czechoslovakia, Yugoslavia, Greece, and the Soviet Union, and also Great Britain and the United States. (See page 1044.)

Provisional International Civil Aviation Organisation, set up in June, 1945, as an outcome of the Chicago Conference of 1944. It is a purely technical and advisory body, and is meant to be superseded by a more permanent organisation, which has still to be established.

International Bank for Reconstruction and Development, set up as an outcome of the Bretton Woods Conference of 1945, with the purpose of aiding with the provision of long-term capital for large projects of economic development, especially in the more backward areas.

International Monetary Fund, also set up at Bretton Woods, for the purpose of international currency stabilisation, the regulation of monetary relations, and the provision of international credit, as distinct from long-term capital.

United Nations Trusteeship Council, set up by resolution of the United Nations Conference of February, 1946, to replace the Mandates Commission of the League of Nations. (See page 926.)

Atomic Energy Commission, set up at the same Conference, with

the 'Big Five' and Canada as members, "to proceed with all despatch to enquire into all aspects of the problems." This is the body to which the United States presented in June, 1946, the 'Baruch Plan' for international control of atomic energy, with international inspection.

International Court of Justice, set up as part of U.N.O. at the San Francisco Conference of 1945 to succeed to the functions of the old Hague Court and of the League's Permanent Court of International Justice.

In addition to these bodies, the first Assembly of U.N.O. approved in principle the establishment of a *United Nations Health Organisation*, to succeed to the functions of the Health Organisation of the League of Nations; and the United States has proposed the holding as soon as possible of a Conference to set up a *United Nations Trade Organisation*, for which it has put forward a complete draft scheme designed to prohibit all forms of 'discrimination' in international trade and to limit the powers of 'state trading organisations.'[1] A Preparatory Committee in connection with this Organisation met in London in the autumn of 1946, and a Drafting Committee to prepare the agenda for the full Conference was convened in New York in January 1947. Connected with this project is the further proposal to establish a number of *Commodity Organisations* for the purpose of regulating the international trade in, and also the production of, certain key commodities, on the model of the *International Wheat Agreement* of 1942. An International Wheat Conference met in London in March, 1947, and drafted an International Wheat Agreement, which is discussed on page 1018. It raises important issues for Great Britain as well as for the great producing countries.

The Economic and Social Council

Evidently, if U.N.O. fails, the failure will not be due to lack of machinery for co-operation. It is true that the way in which all these separate organisations are meant to be welded together into a single system is still by no means clear. Largely under American influence, the method has been that of bringing a separate body into existence for each field in which international co-operation seems to be called for, and of leaving over for subsequent consideration the best ways of delimiting their several spheres of activity and of co-ordinating their efforts. In particular, it is not at all clear how all the specialised agencies set up in the economic and social fields are meant to be related to the Economic and Social Council of U.N.O.; nor does a study of the Charter drawn

[1] See pp. 983ff.

up at San Francisco do much towards lessening the uncertainties. According to the Charter, the Economic and Social Council is to "make recommendations for the co-ordination of the policies and activities of the specialised agencies" (Article 58). It is to "initiate negotiations among the States concerned for the creation of any new specialised agencies required" (Article 59). It "may enter into agreements with any of the agencies, defining the terms on which the agency concerned shall be brought into relationship with the United Nations" (Article 63). It "may take appropriate steps to obtain regular reports from the specialised agencies," and "may communicate its observations on these reports to the General Assembly" (Article 64). It "may, with the approval of the General Assembly, perform services at the request . . . of specialised agencies" (Article 66); and it "may make arrangements for representatives of the specialised agencies to participate, without vote, in its deliberations and in those of the commissions established by it, and for its representatives to participate in the deliberations of the specialised agencies" (Article 70). All this does not explain a great deal: it says only that the task of co-ordination is to be tackled in due course by the Economic and Social Council, subject to the control of the Assembly.

The Future of the I.L.O.

The issues involved are quite important. Take, for example, the position of the International Labour Organisation, which is presumably meant to rank for the future as a rather exceptional type of "specialist agency." Hitherto the I.L.O. at its Conferences has drawn up its own draft International Conventions, and has submitted these for ratification directly to the member States, which have been under an obligation, not necessarily to endorse them, but at any rate to submit them to their own law-making agencies for consideration. The I.L.O.'s draft Conventions will continue to be submitted in this way, but it has still be to made clear how its independence is to be reconciled with the functions entrusted to the Economic and Social Council of U.N.O. Hitherto the I.L.O. has been parallel and co-equal to the League Assembly, and it would be a great fall in status if it were to become only an annex to a constituent committee of the Assembly under the new system. The I.L.O. has shown throughout its desire to attach itself to U.N.O. and to play a part in building up the new organisation; but it was for some time cold-shouldered and was not even mentioned in the Charter drawn up at San Francisco. The I.L.O. has revised its own constitution so as to detach itself from the dying League of Nations, and has declared its willingness to

adjust its structure so as to fit in with the requirements of the new system. But it has been given so far no very clear indication of what is expected of it.

This is, no doubt, partly because the I.L.O. is unpopular in the Soviet Union. When the Soviet Union joined the League of Nations in 1934, it became automatically a member of the I.L.O.; but at no period did it take any active part in its work, and from 1937 no Soviet delegate attended at all. The expulsion of the Soviet Union from the League in 1939 did not of itself involve expulsion from the I.L.O., which was open to States, such as the U.S.A., that did not belong to the League. But the Soviet Union, though never expelled, in effect ceased to count as a member, and the Soviet line has been steadily hostile. No I.L.O. Convention has ever been ratified by the Soviet Union; and there have been many attacks on the Organisation in the Soviet Press, mainly on account of its tripartite character, which involves the representation of employers.

Mention of the I.L.O. in the United Nations Charter might therefore have been opposed by the Soviet Union; but it does not appear that there was any pressure to get it mentioned from either Great Britain or the United States. It was left in a sort of limbo, and presumably will remain in its somewhat anomalous position till it has become clearer whether the Economic and Social Council is to become in practice an important constructive agency in the economic field.

Earlier recognition of the I.L.O. might, no doubt, have strengthened the hands of the newer specialised agencies, such as the Food and Agriculture Organisation and U.N.E.S.C.O., in relation to the Economic and Social Council. It would have made it easier for these bodies to claim the right of direct access for their proposals to the member States, without having necessarily to go roundabout through the Economic and Social Council and the United Nations Assembly. As matters stand, their powers in this respect remain entirely undefined; and it is left uncertain whether they, or the Economic and Social Council, are intended to be the main instruments for the policy of close economic collaboration which U.N.O. is supposed to have been created to promote.

The Food and Agriculture Organisation

Great hopes were set, in particular, on the Food and Agriculture Organisation when it was first set up, with Sir John Boyd Orr as Director. The Director was known to stand for ambitious plans to improve the standard of nutrition throughout the world; and his proposals seemed at the outset to be warmly welcomed by

the United States as well as by other great food-producing countries. Broadly, what was proposed was that there should be a World Food Board, armed with wide powers both to expand the total production of food and to stabilise prices at levels fair to both the producing and the consuming interests. This was to be achieved through a series of Commodity Councils, acting under the World Food Board and representing both importing and exporting countries. There were to be resources available for buying up and holding surplus stocks, which would serve as reserves in the event of deficient harvests; and this 'buffer stocks' policy was to be internationally financed and controlled, and was to include provisions for the distribution of food at special prices to necessitous areas.

For a time, the Americans seemed to regard these plans with favour. But, as, in the course of 1946, the United States swung back violently to an uncontrolled economy, the American attitude changed, both because they were felt to involve too much state intervention and because it was realised that the main task of financing the scheme would necessarily fall on the United States. American repudiation of the Orr Plan was followed by a rapid cooling of enthusiasm elsewhere; and the revised scheme which emerged in January 1947 was very different from what had been originally proposed. Instead of an international agency for buying and holding buffer stocks, it was proposed that each exporting country should adopt its own measures for buying and holding off the market a part of its output whenever world prices threatened to fall unduly low—with, of course, corresponding releases from stocks in periods of scarcity. The proposal that surpluses should be sold to necessitous countries at specially cheap rates was retained, but subject to a reservation, insisted on by the British delegates, that the regular consumers should not be called upon to pay higher prices in order to meet the loss on these low-price sales. It seemed very doubtful how much would come of the plan in its attenuated form; and there was a clear tendency in the United States to insist on the primary importance of the proposed International Trade Organisation as against the Food and Agriculture Organisation as the body to be responsible for special Commodity Agreements—a change which followed on a shift in the balance of power from the Department of Agriculture, which had favoured the Orr Plan, to the State Department, with its insistence on *laissez-faire* and non-discriminative arrangements for the conduct of international trade.[1] In general, the tendency, largely as a consequence of the changing attitude of the United

[1] See pp. 980ff.

States, has been to restrict the powers and financial resources of the 'specialised agencies,' without any offsetting increase in the effective functions of the Economic and Social Council itself.

The I.M.F. and the I.B. (Bretton Woods)

There are, indeed, certain 'specialised agencies' in whose case no such doubt appears to exist. The International Monetary Fund and the International Bank for Reconstruction and Development, established under the Bretton Woods Agreements, do not seem to be meant to have any organic relationship to the U.N.O. Assembly or to the Economic and Social Council. They are both plainly meant to act directly under their respective Statutes, without referring in any way to U.N.O. or needing to co-ordinate their policies with those either of the Economic and Social Council or of any of the other specialised agencies. The high mysteries of currency and banking seem thus to be lifted right out of U.N.O.'s scope, and to be placed in the hands of bodies in whose deliberations and decisions the leading financial countries, and especially the United States, will have the preponderant voice. It is a little surprising that nobody at all appears to have directed any attention to this point, or to have raised any claim on behalf of the Economic and Social Council to a voice in the world's monetary affairs.

Non-member States

A further important point in connection with the work of the Economic and Social Council—and also of the specialised agencies—is that nothing seems yet to have been decided, or even considered, about their relation to States which are not members of U.N.O. Even if ex-enemy countries—to say nothing of ex-neutrals—can for the time being be left outside the political structure of U.N.O. without destroying its effectiveness, the same treatment cannot be meted out to these countries in economic matters without very serious results. If U.N.O. and its agencies are to play a real part in planning economic affairs on an international basis, the plans must cover not only Sweden and Switzerland, but also Germany, Italy and Japan; and in many matters it will also be necessary to consult the representatives of colonial territories, which are not eligible for membership of U.N.O. In the case of the I.L.O. after the first World War, power was given to admit countries which were not members of the League of Nations; and it looks as if both the Economic and Social Council and the specialised agencies would need this power, in order to be able to do satisfactory work. This, however, is made difficult by the fact that the Economic and Social Council has been given the form of

a committee elected by the Assembly, which of course consists entirely of delegates from member States.

The truth is that none of the leading States has yet given much attention to the economic and social side of U.N.O. To the extent to which they have considered it, they have done so mainly in connection with such questions as that of "economic sanctions," which are closely connected with the political side. The Charter drawn up at San Francisco was in substance a political Charter, with the prevention of war as its principal objective: the references to international economic collaboration were put in without much thought of what they really meant, or how they were to be applied.

'Regional Arrangements'

This is most obviously true in relation to "Regional Arrangements," which are dealt with in Chapter VIII of the Charter. This Chapter does not once mention economic arrangements, or appear to contemplate their existence. Yet almost at the same time as the Charter was drawn up, the United States was establishing, in conjunction with the other States on the American continent, an Inter-American Social and Economic Council as a 'specialised agency' of the Pan-American Union, and the Soviet Union was getting ready to integrate the economic affairs of the countries of Eastern and South-eastern Europe closely with its own. Regional economic arrangements cannot have been absent from the minds of the statesmen who drew up the United Nations Charter; but, for reasons of their own, they preferred to say nothing about them. (See, however, Notes on pp. 874 and 1018.)

These reasons are not far to seek. The United States, while reserving its right to enter into any arrangements it may please with its neighbours on the American Continent—or indeed elsewhere: witness the economic arrangements recently made with the Philippines—is endeavouring to get the rest of the world to organise its economic affairs on the principle of "no discrimination," which means, in fact, the right of free entry for American capitalism. Its delegates were most unlikely to include in the U.N.O. Charter anything that might be interpreted as giving encouragement to regional economic arrangements. In the parallel United States 'Proposals on Trade and Employment,' there is a recognition of the right of adjoining countries to enter into complete Customs Unions; but short of this all mutual economic arrangements are banned. Nor was the Soviet Union likely to wish to advertise in the United Nations Charter its far-reaching plans for replacing Nazi Germany as the controlling

power in East European economic relations. As for Great Britain, its delegates knew very well that nothing suggestive of the maintenance of the 'sterling area' or of empire preference would find favour with the United States. Accordingly, the entire problem was passed over in silence.

The Act of Chapultepec

It is, however, a real problem, which will have to be faced when and if the Economic and Social Council and the specialised agencies get down to serious work. The Act of Chapultepec, signed by the American States in November, 1945, includes provision for common action among those States on "a constructive basis for the social economic development of the Americas through the development of natural resources, industrialisation, improvement of transportation, modernisation of agriculture, development of power facilities and public works, encouragement of investment of private capital, managerial capacity and technical skill, and improvement of labour standards and working conditions, including collective bargaining, all leading to a rising level of living and increased consumption." The Act further lays down as guiding principles of economic policy for all the American States "equality of access on equal terms to the trade and raw materials of the world; elimination of excesses of economic nationalism; restriction of private business arrangements obstructing international trade; just and equitable treatment of foreign enterprises and capital; and the promotion of the system of private enterprise."

It can no doubt be said that there is nothing in these decisions which implies the setting up of any exclusive regional system, and that the Americans have carefully phrased the recommendations to fit in with their own international policy of no trade discrimination and the fullest freedom for capitalist enterprise. But the fact remains that the American States are acting together as a group and have set up a regional Social and Economic Council of their own, apart from U.N.O. U.N.O.'s own Economic and Social Council will evidently have to come to some terms with this body, defining mutual relationships; and if the Americans are free to have a regional economic body of their own, they can hardly deny the same right to any other region in which States may desire to establish a similar body.

Politics and Economics in U.N.O.

It may be held that all these things that I have been writing about so far in this chapter are of minor importance, because the

real issue about U.N.O. is whether it can or cannot be made to work as a political body for the prevention of war. Certainly this is the aspect of it on which the main stress has been laid in the Charter drawn up at Dumbarton Oaks and revised at San Francisco and in the public discussion of its affairs. The minds of men, including statesmen, have been much more on means of regulating international political relations than on any projects of international economic collaboration. This remains the case, despite the fact that the failure of the League of Nations has often been attributed largely to its almost exclusively political character and to its weakness of equipment on the economic side. I feel sure that U.N.O. cannot in fact become an effective instrument for preventing war unless it becomes an effective agency for promoting and participating in international economic co-operation. But that is not what politicians are thinking about: on the contrary, the arrival of atomic energy has had the effect, for the time being, of concentrating their attention more than ever on the use of U.N.O. as an agency for the prevention of war.

The Security Council and the Veto

It is, of course, in this spirit that so much power has been concentrated in the hands of the Security Council, that the Assembly has been reduced to a quite subordinate position, and, paradoxically, that the veto has been written into the text of the new Charter. The idea underlying the veto, at any rate in the minds of most of the delegates at San Francisco, was that as any attempt to coerce a really great country would mean war, a body designed to prevent war had better eschew anything that might involve such coercion, and trust to diplomacy rather than to any sort of coercive power to keep the Great Powers from going to war one with another. The old League of Nations, though its Covenant included many reservations, did contemplate in the last resort the use of the collective force of its loyal members against an 'aggressor,' even if the aggressor happened to be one of the Great Powers belonging to the League. In the Charter of the United Nations, all that has been given up. The Security Council alone has power to act in matters affecting peace and war: all power of action, and even of recommendation, in such matters has been denied to the Assembly. And even the Security Council can do nothing against the veto of any one of the Great Powers represented on it—even if the vetoing Power is itself the offender against whom action is proposed.

At Dumbarton Oaks, where the first draft of the United Nations Charter was drawn up, the main difficulty that arose was over the

'veto,' on which the Soviet Union insisted as a condition of adhesion to the new organisation. There seems to have been no serious difference of opinion about the need to give special and exclusive authority to the Great Powers, and to concentrate most of the authority in the hands of the Security Council, on which these Powers would predominate, to the exclusion of the Assembly, which, based on the principle of equality between all sovereign States, would leave a large preponderance of votes in the hands of the smaller countries. There was, however, a real difference about the claim that any Great Power should be judge in its own case; and the Soviet Union took the lead in maintaining this right in an unqualified form.

The reasons why the Soviet Union held out for the unqualified right of veto are easy enough to understand. They rest on the assumption that, if decisions were to be taken by a majority, the verdict would usually go against the Soviet claims, and the Soviet Union would thus be put legally in the wrong by the judgment of a world majority of capitalist powers—or of capitalist Great Powers, if the 'Big Five' alone were to call the tune. There is, as matters stand, no doubt at all that this view of what would occur is correct. Of the Great Powers, the United States, Great Britain and China would be, on most issues, against the claims that would be advanced by the Soviet Union; and France, which might endeavour to effect a compromise, would be more likely, in the last resort, to be against the Soviet claims than for them at the cost of a breach with the other Western Powers. Of the six other countries which originally got seats on the Security Council, Holland and Australia would be likely to take the same line as Great Britain, and Brazil and probably Mexico the same line as the United States. Poland would support the Soviet Union. That leaves Egypt; and the Egyptian view would depend on the course of relations between Great Britain and the Arab countries of the Middle East. On any showing the Soviet Union's point of view, being that of a Communism which is still outlawed in many countries and an opposition force in most others, would be most unlikely to carry the day. The Soviet Union, then, if it was to participate in the affairs of the Security Council without giving up its own point of view, had to secure conditions which would protect it against a majority vote and would give it the right to hold out, if need be, against everybody else, in such a way as to compel its critics either to compromise or to accept the breakdown of the machinery of world co-operation.

Evidently, no such conditions would be acceptable unless the majority were afraid enough of the consequences of breakdown to

be prepared to go a long way towards compromise. If no such instrument as U.N.O. existed, and international affairs were dealt with exclusively by the older methods of diplomacy, the nations would have to consider, whenever they seriously disagreed about something that had to be settled one way or another, whether the issue was worth fighting about, or at any rate risking war about, or not. The existence of U.N.O. leaves them, despite the formal renunciation of war which is embodied in the Charter, still to face this same question in the last resort; but it leaves them to face it only after the matters at issue have been argued about in the presence of representatives of a number of countries which may or may not be directly concerned, and after there has been the maximum of opportunity to suggest compromise solutions. All the statesmen of the leading countries regard this situation, despite its failure to afford any final guarantee against war, as greatly preferable to the absence of any machinery beyond that of direct diplomatic exchanges. In this view they are undoubtedly right. U.N.O. may be, and is, a poor thing from the standpoint of those who are thinking in terms of real world collaboration; but it is much better than nothing, because it does compel States to talk and talk again in the presence of others before they make up their minds to fight.

Can U.N.O. Succeed?

Of course, this view would not be generally accepted if any Great Power were plotting to make war on any other. But in fact none is. Only the United States is strong enough to be in a position to plot another world war; and American statesmen, over and above all other considerations, are well aware how unpopular any such move would be among their own people. There are plenty of Americans who are ready to enjoy themselves abusing the Soviet Union up hill and down dale, and not a few who talk about the inevitability sooner or later of a clash between the United States and the Soviet Union, and about the necessity of being prepared; but there are very few who are ready to contemplate another world war as a reality to be planned for in the near future. As for the Soviet Union, its leaders are well aware that they could not at present face another war without sheer disaster; and, whatever they may think about the likelihood or even the certainty of a clash with capitalist America in the long run, the very last thing they want is to provoke it now.

Accordingly, the leaders of the Soviet Union want U.N.O. to work, and dare not allow it to break down if it can be made to work on any conditions that do not involve interference on the

part of other nations with the development of the Soviet system and the extension of its influence among its neighbours. But what the Soviet leaders cannot face is any form of collaboration that would involve placing their own economy under any kind of control by an international organisation predominantly representing either capitalism or the kind of political system that they identify with capitalism. They will not face, even in order to get a share in the secrets of atomic production, any system that would lay open their own factories to international inspection; for they doubtless hope before long themselves to master the secrets of atomic energy, even if they are not officially revealed, whereas they fear that external inspection of their doings would both expose their present economic weakness and make it easier for the United States to devise military methods for their overthrow.

U.N.O., therefore, can work only with the veto, and is worth working with the veto, rather than not at all. It is another matter whether, given the veto, it was necessary to concentrate so much power in the hands of the Security Council and to reduce the Assembly to so minor a function. In effect, what has happened in this respect is partly an accident. The original scheme discussed at Dumbarton Oaks did not include the veto, and was drawn up to ensure that the great military powers, upon which the responsibility for any action against an 'aggressor' would necessarily fall, should have the last word. This was regarded as indispensable, in order to secure an effective preponderance of military power on the side of U.N.O. if action were called for against a really powerful State. It was recognised that, under the conditions of modern war, the smaller States could hardly count at all in a military sense, except as mere adjuncts to greater States with the necessary resources and equipment. On this ground, it seemed reasonable to deny them a voting strength which might have conferred on them the legal right to compel the Great Powers, or some of them, to take action in the name of U.N.O. against their own will and judgment. This argument, however, ceased to be valid as soon as the veto was accepted; for with the veto available, such a situation could never arise. No Great Power could ever be under a legal obligation to act against its own judgment; and there was accordingly no longer any valid reason against allowing the smaller States to declare their opinions, individually or collectively, in any dispute with which U.N.O. might be called upon to deal. However, the draft of the Charter had been made before the veto was accepted, and had been put into shape at Dumbarton Oaks while the question of the veto was still in dispute; and accordingly the veto got incorporated into a document which had

been drawn up to cover the situation that would have existed if it had not been there.

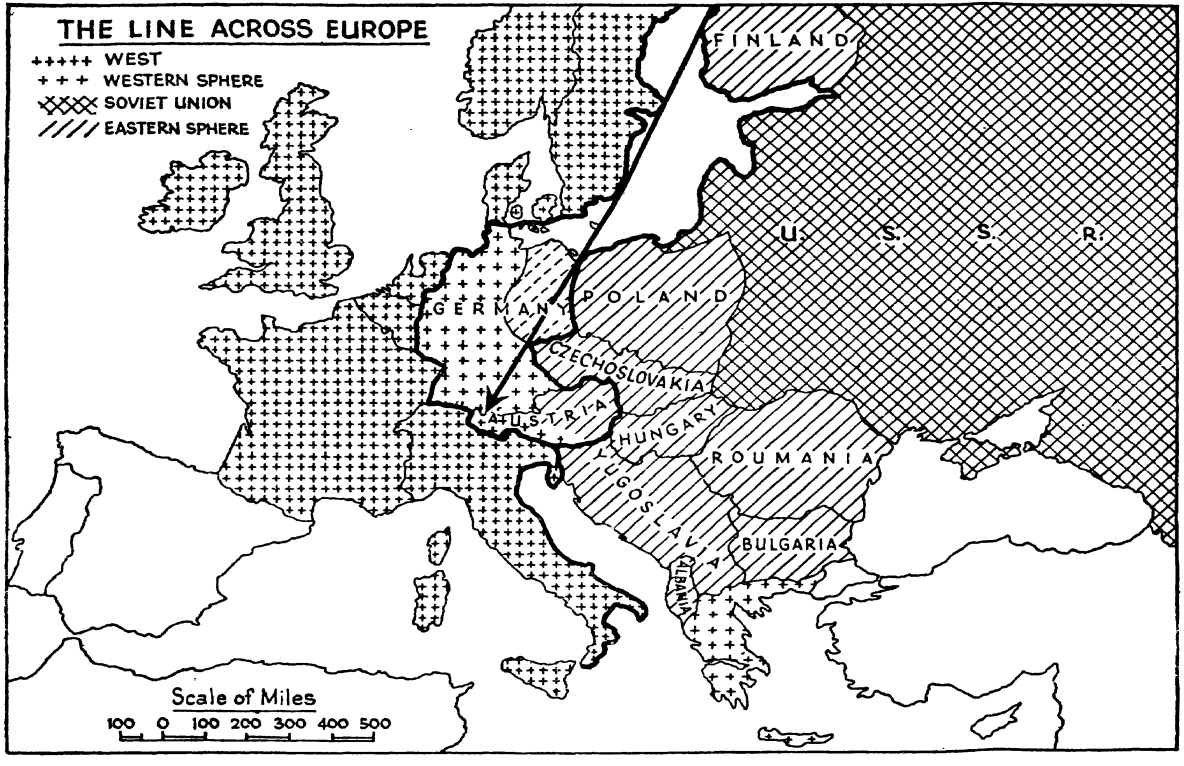
This is unfortunate, because it prevents the smaller States from using the Assembly as fully as they might do to express opinions, as distinct from taking action. It is unavoidable that the power to act on questions of war and peace should be left to the Security Council; but there is no valid ground on which the Assembly can be precluded from making recommendations. In the Charter as it was finally adopted at San Francisco the Assembly is allowed to discuss; but it can neither investigate any dispute liable to lead to war, nor make any recommendation about such a dispute. All such action is reserved exclusively for the Security Council; and there, without qualification, the veto on any decision applies. The attempts of a number of the smaller States at San Francisco to secure an enlargement of the Assembly's powers were all defeated: it has only a quite general and undefined residuary power to make "recommendations with respect to the maintenance of international peace and security" (Article 18); and this power does not extend to dealing with actual or threatened disputes.

NOTE TO PAGE 1007: The International Wheat Agreement drafted in March, 1947, as a first instalment of the policy of stabilising agricultural prices, raises serious problems for Great Britain, because of the effect of higher import prices on the heavily overstrained balance of payments. The Agreement is based on fixing maximum and minimum price levels for wheat, and also export quotas which the producing areas are allowed to exceed only under penalty. There is a provision that surpluses may be disposed of by sales at lower prices to 'needy countries'; and in this connection it is laid down that such special sales must not lead to higher prices than would otherwise be charged for wheat sold in the normal course. How this effect is to be prevented does not appear; and there are misgivings that the Agreement may still further raise the cost of British wheat imports. Nevertheless, the objective of more stable agricultural prices is so clearly desirable that Great Britain cannot but hope for agreement—even though unable to sign it as it stands. It is much to be regretted that the withdrawal of American support has wrecked the original Orr Plan for the international financing and holding of buffer stocks, and has put the obligation to hold such stocks on the individual countries. It is also, I think, regrettable that American pressure is leading to the substitution of the proposed International Trade Organisation for F.A.O. as the body to be given the main responsibility for commodity stabilisation schemes.

CHAPTER II

CAN THE UNITED NATIONS WORK TOGETHER?

CAN DIFFERENT SOCIAL and economic systems live side by side in the world without war? That is the great problem which mankind has to solve during the coming generation, or, in failing to solve it, plunge into utter disaster. It is already clear that the elimination of Fascism as a world power has not solved the problem. It was easy enough to see—though all too many statesmen failed to understand it in time—that there could be no durable compromise between a Fascism that was essentially aggressive, predatory, brutal and military-minded and any obstacle that stood in its way to world domination. Fascism was bound either to conquer the entire world or to go down to entire defeat; for it knew no stopping point short of complete supremacy. For this reason, all the great countries that were not prepared to accept utter subordination were bound in the end to join together for its destruction, whatever their own differences might be. If the Soviet Union did not join in the struggle at the outset—if its leaders seemed even more hostile for a time to those who were fighting against Fascism than to Fascism itself—this can hardly have been because they were under any immediate illusion about the possibility of living durably at peace with a victorious Germany at the head of a vast satellite empire. They held aloof rather because they were not ready, and preferred the prospect of a war against a strengthened Fascism later to one against a weaker Fascism at once. They may, over and above this, have cherished the hope that the antagonists in the war of 1939 would wear each other out, so as to leave Fascism not more but less formidable, and their own power heightened by the gains they would be able to make in the process of the struggle. Had France held firm, and had the war in the West followed a course broadly resembling that of the first World War, the Soviet Union might have been able, not only to consolidate its position in Eastern Europe and, by pushing its frontiers forward, to remove its key industrial areas further from the point of first attack, but also greatly to extend its influence in Asia, both in the Middle and in the Far East. The falling to pieces of the British Empire, which


THE LINE ACROSS EUROPE
++++ WEST
+ + + WESTERN SPHERE
XXXX SOVIET UNION
//// EASTERN SPHERE
FINLAND
U. S. S. R.
GERMANY
POLAND
CZECHOSLOVAKIA
AUSTRIA
HUNGARY
ROUMANIA
YUGOSLAVIA
BULGARIA
ALBANIA
Scale of Miles
100 0 100 200 300 400 500

Great Britain would in such a struggle have been hard put to it to prevent, would have caused no sorrow in the minds of the Soviet leaders, who, if they were enemies of the new Fascist imperialism, were hardly less hostile to the old capitalist imperialism of the British, the Dutch, and the French. Of course, in Asia it would have been necessary—indeed, it actually was necessary—for the Soviet leaders to keep a continuously watchful eye on Japan. But whether the Japanese stayed quiet for the time being, or joined in and attempted to extend their own empire at the expense of the older colonial powers, it seemed clear to the Soviet leaders that it was to the interest of the Soviet Union, in Asia as well as in Europe, to bide its time, and to stand ready to snatch what advantages it could from the troubles and preoccupations of the other great powers.

This calculation, if it was made in the terms just described, was partly but not by any means wholly falsified by the course of military events. The speedy and easy triumph of the German armies on the continent of Europe, the collapse of France, and the failure of Great Britain to hold even Greece and Crete—to say nothing of the bare success in holding Egypt—made it evident that the Nazis were bound, unless further antagonists joined in against them, to emerge from the war not weaker but greatly strengthened by their mastery of most of Europe. The resources of which they disposed after they had overrun all the continent up to the new Soviet frontiers were immense; and although the Battle of Britain went against them, it was plain that Great Britain could not for long hold out unless it received further help.

Soviet Suspicions of British Policy

The Soviet Union, however, was no more disposed to join in the war against the Nazis when they seemed to be consolidating their power over most of Europe than it had been when hostilities began. This was, no doubt, partly because Fascism looked an even more dangerous antagonist in 1940 than it had looked in 1939, and the Soviet leaders were still playing for time. But it was also because they were deeply suspicious of British intentions, even to the extent of believing it possible that, if they entered the war, Great Britain might come to terms with the Nazis and join in, or at least cheer on, the attack on the Soviet Union. These fears were unfounded, once the Coalition Government had taken over power in Great Britain; but they were not, in view of the British record under Chamberlain, without excuse. For it was, alas, perfectly true that a large section of British Conservative opinion had hoped to the last that Hitler, sufficiently appeased in the West, might

consent to go East and to attack the Soviet Union instead of the Western powers. By 1940, however, all but a small section of British Conservative opinion had come round, however reluctantly, to the view that there had to be a struggle to the death between Great Britain and Nazi Germany, and the party of appeasement had ceased to exercise any practical influence. This did not mean that the British Conservatives disliked the Soviet Union any the less. Indeed, many of them clearly still very much preferred the Nazis. But even those who had sympathy with Nazism as a means of keeping the lower classes in order realised the necessity of fighting it in order to preserve their own wealth and privilege and the British Empire, which was for many of them the source as well as the symbol of these good things.

Nevertheless, the idea of joining Great Britain in the war against Fascism made no appeal to the Soviet leaders. It was left for Hitler, when he had failed in the Battle of Britain, to decide that the time had come to sweep away the Soviet power before finishing the British. When the Nazis did attack in the East, there were few in Great Britain who anticipated at all correctly the strength of the Soviet resistance. Most Conservatives were convinced that the Soviet Union would simply crumble; and not a few Socialists betrayed by their manifest anxiety their doubts of Soviet strength. In the terrific struggle that followed, in the course of which a great deal of Soviet territory was scorched and a large part of the Soviet Union's newly built industrial equipment was destroyed, it was inevitable that the Soviet leaders and their sympathisers abroad should feel that too little was being done to help them, and that there were powerful groups in both Great Britain and the United States—which entered the war a few months later, as an outcome of Pearl Harbour—not ill pleased to sit back and watch while the Nazis pounded away on the Eastern Front, or more concerned to meet the Japanese attack on imperialist interests in Asia and in the Eastern Mediterranean than to help the Russians to beat Hitler in Europe. As far as Great Britain is concerned, these suspicions made too little allowance for the time needed for building a military potential capable of taking the offensive on the European continent. The clamour for a Second Front was understandable; but it did not make sense at the time when it was begun. That, however, does not alter the fact that the Soviet Union leaders did not feel that they were getting wholehearted assistance from the West: nor must we omit the other fact that Western opinion was sore because of the Soviet Union's attitude up to the very moment when it became, perforce, a combatant. It was not easy in Great Britain to forget in a moment

that the Communists who were pressing hard for a Second Front had only a little while before been doing all they could to hamper the war effort against the very Nazis towards whom they now again felt so venomously.

The Soviet View of British Foreign Policy

I recall these facts, not for the sake of reviving unpleasant memories, but because they are directly pertinent to the present problems of European policy. In the eyes of the leaders of the Soviet Union Great Britain is still a capitalist imperialist power, trying to hold on to its imperial possessions and lines of communication, and to preserve as far as it can its ability to exploit the more backward peoples. The offer of independence to India is regarded simply as a sign of known weakness: India must be conciliated to any extent that may be necessary, because it can no longer be held down by force. Egypt must be evacuated, because it cannot be held; but the means of reoccupying it speedily, if need arises, must be preserved. There must be adequate bases in the Near and Middle East; and the Eastern Mediterranean must remain a British sea, to be held with American help, in order to guard the Suez Canal and the oil from the Middle East. Greece must therefore be held, even if this means supporting black reaction in order to hold it; and the Soviet Union must be prevented from acquiring any sort of lodgement in the Mediterranean and, if possible, any right of warlike egress from the Black Sea. Further East, at the least Malaya must be reinstated as an important sphere for capitalist exploitation of the native peoples; and the Dutch must be helped to retain Indonesia, and the French Indo-China, and the Americans to make China safe for a resumption of capitalist trading.

This is no mere caricature of British foreign policy, even under a Labour Government. It is mainly a true account. It looks, however, very different according to the way it is put. Mr. Bevin would probably argue, if he spoke quite frankly, that with the Russians playing 'power politics' he has no choice but to play them too. He would, however, start out from the assumption (true or not, he certainly believes it to be true) of Great Britain not as a tired imperialist exploiter trying to salve as much as possible of its ill-gotten gains, but rather as a beneficent world influence making for peace and democracy, and prepared to give its subject peoples as much self-government as is good for them. Granted this assumption, why should he not do all he can to defend Great Britain's position in the Eastern Mediterranean and to restore

British rule in Borneo and Malaya? And how can he help being angry when the Soviet statesmen, instead of recognising his right to behave in this way, do everything they can to make things awkward for him, though, in his view, they are themselves following a much more aggressively imperialist policy in Eastern Europe?

The Soviet statesmen can by no means follow this logic. To their minds, what they are doing in Eastern Europe is utterly different from what Great Britain is doing in the Middle East, or in Greece. Their policy is not imperialism, which is an evil manifestation of capitalism: it is quite another thing—the extension of the world Socialist Revolution to more of the suffering peoples of Europe, or at all events a step in this direction. It is axiomatic for the Soviet leaders that their revolution, the Revolution which Marx foresaw, is destined in due course to cover the whole earth, and that it is their mission to help its spread. Their quarrel with Trotsky was not that he believed in the world revolution, whereas they did not: it was about strategy, and not about objectives. They are accordingly well assured of their own righteousness in forwarding the cause of social revolution wherever they can do so without jeopardising their own power; and they are equally assured of being right in putting a spoke in Great Britain's wheel where they can, because Great Britain stands in the way of their revolution both in Europe and in the colonial countries.

Two Views of Socialism

This is as true of the Britain of Mr. Attlee and Mr. Bevin as of the Britain of Mr. Churchill—or of Mr. Chamberlain. For the Socialism which is the declared goal of the British Labour Party is not revolutionary and is, from the Soviet standpoint, not Socialism at all. It is not merely not based upon, it repudiates, the Marxian philosophy. In that philosophy, classes are the final realities in social development, and individuals, save in a quite secondary sense, do not count. The revolution is a matter, not of moral appeals to individuals to vote for a square deal for everybody, but of class power. Its success is marked, not by mere electoral victory, but by a liquidation of class enemies. The very conditions of the revolution are a denial of the conception of continuity, and involve a clean sweep of the old forms of class power. Such a philosophy necessarily makes for ruthlessness: it is careful of the type, but quite careless of the single life. To those who hold it, the behaviour of the British Labour Government and the mentality of most of that Government's supporters are alike unintelligible save on the assumption of treason, or hypocrisy, or, at

best, self-deception. It is inconceivable to them that a real Socialist should set out, as Mr. Attlee and Mr. Bevin have obviously done, from the belief that in general the personnel of the Foreign Office, the diplomatic service, and the higher civil service are decent chaps, who will serve perfectly well to carry out Socialist policies, though they have grown up as the executants of capitalist and imperialist policies.

Let me say at once that, on this last point, I feel their suspicions to be justified. I, no more than they, can believe that the people whom the British Labour Government keeps appointing to high official positions are suitable or tolerable executants of such policies as most British Socialists wish to see pursued. I do not, however, draw the conclusion that Mr. Bevin is at heart a supporter of capitalist imperialism or Mr. Attlee a mere puppet in the hands of the capitalist class. I do not draw this conclusion because, like them, I do not believe in the world socialist revolution as the Russians conceive it, and also because, like them, I believe that individuals and not classes are the ultimate moving forces in society, as well as the final repositories of value. I do care if individuals suffer, even if they are my political opponents or belong to an exploiting class: I mind about suffering, whoever suffers, except when my heart is blackened by revulsion against some particularly atrocious crime. I do not think that nothing matters except the triumph of the proletariat as a class: I think it also matters very much that, in triumphing, the proletariat should take over, instead of trampling upon, what was humanly good in the society it is displacing. Nor can I divide people sharply into economic classes of sheep and goats: I see them rather as people, for some of whom class allegiance is clear and certain, but for others a matter of doubt—for in Great Britain at any rate the classes are not sharply divided, but much mixed up, and getting more and more mixed with the widening of educational opportunity and the narrowing of real differences of income. If I were a Russian, I should have a different experience and a different social tradition, and should very likely see these things with different eyes. But I am an Englishman, and I have behind me some centuries of not unavailing struggle to make a society in which large elements of liberal toleration and decency have come to exist side by side with economic institutions, and with some political institutions (such as monarchy), of which I strongly disapprove. What I cannot do is to will the destruction of good and bad alike, unless I am quite sure that the advance towards social equality can be made in no other way.

This, I think, is the attitude of most British Socialists, including the leaders of the British Labour Party. They apply it, not only in their home policy of 'gradualist Socialism,' but also in foreign and imperial affairs. For them, the British Empire is not a thing to be liquidated by revolution, but a thing to be reformed by the speedy extension of self-government and by the gradual transformation of capitalist imperialism into a policy of colonial investment designed, instead of exploiting the native peoples, to help them to advance to higher standards of productivity and knowledge. Therefore, any attack on the British Empire appears to them as a wanton interference with their own beneficent reforming zeal; and they oppose the notion of colonial 'trusteeship' to that of colonial revolt which is preached at the campfires of Marxism.

The danger in this attitude is, of course, that it can easily be carried much too far, especially when it is confronted with its rival in action. For, if the forces of colonial revolt become strong, the exponents of colonial trusteeship find themselves committed to suppressing such revolt, and under such circumstances it is not easy to carry on with the process of colonial reform. Nationalist leaders who are being suppressed are not likely to make good collaborators in carrying out gradualist policies of reform, and the reformers are apt to find themselves driven into alliance with the more reactionary elements of the native peoples—the elements most hostile to the very reforms which are the prerequisites of success in the gradualist method of action. The Socialist leader who repudiates the method of revolution needs continually to be asking himself whether he is really and truly moving in the right direction, and at a sufficient pace; and he can often find the answer best by asking who his actual supporters and who his actual opponents have come to be.

As between Great Britain and the Soviet Union, at the present stage of world relations, there is a sharp clash of attitudes on the whole issue of 'imperialism.' Where Mr. Bevin sees Mr. Stalin playing 'power politics,' Mr. Stalin sees himself liberating more peoples from the capitalist-imperialist yoke. Where Mr. Stalin sees Mr. Bevin as the upholder of capitalist-imperialist world interests, and as potentially a participant in a crusade against the Soviet Union, Mr. Bevin sees himself as the defender of Western democracy and of liberal reformism in the colonial world against a totalitarian Communism which threatens all the social values of Western civilisation with eclipse.

Most unfortunately, Mr. Bevin and Mr. Stalin cannot be left to

pursue their debate undisturbed. If they could be, it is at any rate possible that they would be able, if not to agree, at any rate to come to terms on the basis of the element of Socialism that is common to both their creeds. There is, however, to every one of their discussions a third party—the United States—to most a fourth—France—and to some a chorus—the United Nations as a whole. Let us consider first where the United States comes into the picture. It is, frankly and energetically, a capitalist country. So, it may be said, is Great Britain; but whereas Great Britain, while practising capitalism, is represented by spokesmen who do not believe in it, the United States preaches it in addition to practising it, and seeks to make the whole world, as far as possible, an open market for capitalist exploitation. This means that, in case after case, Mr. Bevin has found himself in the position of having to choose between backing the Americans and backing Mr. Molotov; and, nine if not ten times out of ten, he has come down on the American side. There are two main reasons for this, even if we leave aside for the moment any question of Mr. Molotov being unreasonable or unaccommodating in pushing the Soviet policy. These reasons are, first, that Mr. Bevin, in accordance with his policy of gradualism, tries to defend British interests all over the world, including British capitalist interests which he is not yet in a position to discipline or to replace; and secondly, that Mr. Bevin holds a conception of political democracy much more nearly akin to the Americans' than to Mr. Molotov's.

The Defence of British Interests

These two points are closely connected, but they may be considered separately. On the first, Mr. Bevin, whatever his opinions, has to do his best to safeguard the living conditions of the British people, whose representative he is. On this ground, he cannot afford to take any action that would seriously weaken Great Britain as a world power, as long as the game of power politics is still being played. In other words, he has to defend the British Empire, capitalist exploitation and all, until there has been time to deal with the exploitation—unless he can rely on the United Nations Organisation to make an end of power politics, and put something better in its place. He can, and no doubt should, limit his defence to what the reduced resources of Great Britain make it practicable for him to maintain without unduly straining British man-power and the British economy. But that is another story: the limitation of British resources does not exempt him from the necessity of defending British imperial interests wherever he can. He needs, moreover, to defend these interests on two fronts—against

American business penetration as well as against revolutionary impulses aided by Soviet propaganda. And, over and above this, he dare not give cause of serious offence to the Americans, because Great Britain, placed by the strain of war in a very serious economic plight, cannot easily do without American help.

This is an exceedingly awkward situation; and no one but a fool will say confidently that he would do better were he in Mr. Bevin's place. Mr. Bevin cannot possibly like the policy which he has been led into following in Greece: nor do I think he can be pleased at finding himself again and again ranged on the American side against the Soviet Union. But he may fairly ask what else he is to do, as long as the Soviet leaders persist in regarding him as a representative of capitalist imperialism, and continually pick on Great Britain as the weaker party in what they regard as the American-British partnership to defeat the world revolution.

The Soviet-British Clash in Europe

Politically, too, Mr. Bevin is awkwardly placed. In common with the rest of the British Socialist leaders, he believes in parliamentary democracy, by which he understands a system that allows rival parties to appeal to the electorate on equal terms, and the electorate to choose by which party or parties it prefers to be governed. This conception of democracy differs utterly from that of the Soviet leaders, who understand by it a system based on the power of the working class, with a single party or 'front' as the exponent of working-class doctrine and the director of the political machine. The British version of the democratic doctrine leads Mr. Bevin to support everywhere the tendencies that appear to him most closely to resemble it; and this means that in Eastern Europe he upholds the rights of those groups which have been most influenced by Western doctrines. These are the liberal intellectuals, who in most of the East European countries have constituted themselves the leaders of parties claiming to stand for the peasants, but whose claim really to represent the peasant masses is often doubtful. From the standpoint of Mr. Molotov, these parties have no roots, because they have no real class basis. Their 'liberalism' is, in his view, merely a cloak for their impotence to tackle the root problems of class-structure. They are 'counter-revolutionary,' in the sense that they are not on the side of the class-revolution as it is conceived in the Soviet social philosophy.

What Mr. Bevin seems not to see is that, even if his kind of democracy is abstractly preferable to Mr. Molotov's, because it gives more scope for personal freedom, there may be no present means of making it work in Eastern Europe. In the West, it exists

—as far as it can be said to exist even in Western Europe—as the product of a long evolution under conditions very different from those which prevail in the peasant countries. It has grown out of aristocracy—for the party system as we know it was originally an aristocratic institution—as the accompaniment to an economic evolution that has raised up first a powerful middle class and then in succession stratum upon stratum of the working class to share in political power. It is the product of a society which has risen in wealth far above the peasant countries and, in addition to enriching its upper classes, has lifted up a large section of the working class to standards of living and education far above those of poorer countries. It has come to possess democratic elements only as these things have transformed it; and of course it still falls a long way short of being truly democratic. What Mr. Bevin and his colleagues seem not to see is that there are no sufficient roots for the working of any similar political system in Poland, or in Roumania, or in Greece, and that the attempt to support the nominal protagonists of 'Western democracy' in these countries is in fact futile, because even if they were put into power they could not sustain it, and would either yield again, as they did between the wars, to sheerly reactionary forces, or be pushed aside by the very Communism which, in the name of democracy, Mr. Bevin is trying to prevent.

The Americans, even more than Mr. Bevin, try to force the adoption of multi-party methods on the countries of Eastern Europe; but their motives are much more economic than political. What the Americans see clearly is that Soviet supremacy in these countries is likely to mean the closing of their frontiers to capitalist exploitation by American business concerns; and in the name of capitalist enterprise, which they identify with democracy, they clamour for 'liberal' political institutions and protest against Soviet control. Thus Mr. Bevin finds himself, in the name of democracy, supporting American capitalist claims against the Soviet Union; and this confirms Mr. Molotov's suspicions that the British Labour Government's alleged Socialism is only a façade, behind which British capitalist imperialism is still at its old game.

What should Mr. Bevin do?

The resulting situation gives rise to serious disquietude among British Socialists, who do not for the most part at all like the repeated line-up of America and Great Britain against the Soviet Union. But always, when they challenge Mr. Bevin's policy, he gets away with it by challenging his critics to produce a workable alternative—which, so far, they have usually failed to do.

For it is no answer to Mr. Bevin merely to say that, instead of siding with the United States, he ought to be siding with the Soviet Union. It is simply out of his power to do this, as long as the Soviet Union continues to regard the British Empire as a vulnerable capitalist-imperialist structure which all good Socialists ought to be helping to pull down. The great question accordingly is whether there is any way of persuading the Soviet leaders to take a different view.

This is the point at which I join issue with those left-wing politicians who think it enough to criticise Mr. Bevin by urging him to go to the furthest possible point of conciliation with the Soviet Union in the hope of building up better relations. Fully as much as these critics, I want to see close and cordial relations established between Great Britain and the Soviet Union; but I cannot get away from the unpleasant fact that, as matters stand, such concessions as could be made would be more likely to be regarded in Moscow as signs of conscious weakness than as gestures of friendship. Moreover, such a view would possess, whether we like it or not, a great deal of plausibility. It is a plain truth that Great Britain, in relation to the world as a whole and the British Empire in particular, has been left by the war in a weak position, with commitments that impose a very great strain on reduced manpower and economic resources. It is an urgent need for the British Government, wherever it possibly can, to lessen its overseas burdens, not only because it cannot spare the men for keeping large armies in the field, but also because it cannot afford the expense, in terms of foreign exchange, of equipping and supplying large forces abroad.

There are only two ways in which Great Britain's overseas commitments can be reduced; and both of them depend largely on success in establishing good relations with the Soviet Union. The first is to go, as British policy has almost gone in India, to the limit in meeting the demand for self-government in the empire countries, with the object of making the native peoples into friends and collaborators instead of enemies. The other is to arrive at a satisfactory adjustment of relations involving the Arab States and their neighbours in the Near and Middle East, and to solve therewith the problem of the Eastern Mediterranean and the route through the Suez Canal. Clearly, neither of these things can be done easily if the Soviet Union is doing its best to obstruct them; and the second cannot be done at all without the positive collaboration of the Soviet leaders.

In what, then, are those who urge a policy of extreme conciliation towards the Soviet Union wrong? Simply in leaving out of

their calculations the vital point that the Soviet leaders respect strength and despise weakness, and that Great Britain, as matters stand at present, lacks the strength which would ensure that a policy of conciliation would meet with Moscow's respect. It has undoubtedly been the policy of the Soviet Union up to now to keep Western Europe weak and divided, both because its divisions facilitate the consolidation of Soviet influence in Eastern Europe and because a divided West seems to the Soviet leaders less a menace to them than a united West which, they fear, might serve as a base for American operations against them. The Soviet leaders are obsessed by the fear of a new anti-Bolshevik world crusade, in which imperialist capitalism would mobilise all its forces for a renewed onslaught on the Soviet Union. Their desire to reduce German heavy industry to the smallest possible capacity has been based, as we saw, mainly on the fear that the Ruhr might be turned into an arsenal for arming the West against the East; and their intense hostility to every attempt to build up closer relations between the countries of Western Europe has rested on the same fear.

The more closely Great Britain appears to be collaborating with the United States the stronger these fears in the minds of the Soviet leaders are bound to be. For it is evident that the Soviet Union has nothing to fear from Great Britain, or even from an united Western Europe, unless they are acting as satellites of the United States and allowing their territories to be used as a jumping-off ground for American forces. The idea of war between Western and Eastern Europe—of war, that is, directed by the West European States against the Soviet Union—is merely ridiculous. Western Europe would have nothing to gain, and everything to lose, from such a war. If there is any menace to the Soviet Union from the West, it is an American, and not a European menace; and Western Europe could be involved in it only as the junior partner of the United States.

How to Improve British-Soviet Relations

Accordingly, the first requisite for better relations between Great Britain and the Soviet Union is a sharp dissociation of British from American foreign policy. The first essential step towards this is an entire cessation of British support for American interferences in the politics and economics of the countries of Eastern Europe, and a fresh recognition that these countries must be left to shape their political and economic institutions in close relation to those of the Soviet Union. We must stop backing up the claims of the Peasant Party in Poland, or of the right-wing parties

in Roumania and Bulgaria. We must stop supporting the American demand for an open door for capitalist exploitation in the Danube area. And we must reverse our policy in Greece at least to the extent of shifting our support from the Royalist to the Republican side, even if this means in effect the acceptance of a largely Communist Government.[1]

Secondly, we must make it plain that, in economic affairs, we stand for an international policy based on Socialism and not on the American notion of capitalist enterprise. This is not easy to do, in face of the most regrettable economic commitments into which Great Britain has been forced to enter; but we can at any rate say plainly that the British signature was given to the American Trade Proposals only under sheer duress, and that we shall be highly gratified if the refusal of other countries to walk into the American trap relieves us of obligations under them—obligations which we should never have incurred but for our imperative need of immediate financial assistance. We can, at the same time, set to work to develop, to the very fullest extent compatible with our present obligations, state trading institutions for the management of our import and export trade; and we can try, through these institutions, to build up closer trading relations with the Soviet Union and with the countries associated with it.

The Case for Unity in Western Europe

We cannot, however, do these things effectively, or escape from our present subservience to the United States, unless we can build up much closer political and economic relations with our neighbours in Western Europe. This means, above all other countries, France. It is with France, more than with any other country, that Mr. Bevin ought to be doing his level best to make common cause in the discussions of the future of Europe among the Big Four. Great Britain alone, and France alone, are both too weak to stand for a clearly defined, independent policy. As long as these two fail to stand together, the inevitable result is that Great Britain is driven to act under the tutelage of the United States, and that France, torn by internal conflicts, weakly does what it can to play the part of mediator between the Soviet Union and the American-British *bloc*. Such a position is no more satisfactory for the French than it is for us; for it is inconsistent with any tolerable settlement in the West—which is France's greatest need and desire. If Great Britain and France could come to terms, and could put forward for Western Europe a united policy, emphasising at the same time

[1] This was written before the Americans 'took over' Greece; but my view that Britain should support the Greek 'Left' remains unshaken.

their joint renunciation of interference in the affairs of Eastern Europe, the Soviet Union would be confronted with a group that it would have to treat with respect and could no longer regard as a potential instrument of American capitalism for the immediate exploitation of the European continent and for an attack on Communism at a subsequent stage.

What would Great Britain need to do in order to come to cordial terms with France, and to rally all Western Europe behind their joint leadership? First and foremost, as we have seen already, there would have to be a fully agreed policy for dealing with Western Germany. The essentials of such a policy have been outlined in a preceding chapter;[1] and the ground need not be gone over again. What is relevant here is the attitude of the various political parties and more particularly of the Communist Parties in the West, and above all in France, both on the question of Germany and on the wider issue of West European unity. For, in France particularly, the Communist Party is in a position to offer very powerful opposition, and would certainly do so if it felt that the policy presented any danger to the Soviet Union.

Communism and Socialism in Western Europe

The Communist Parties of the West have presented, since the defeat of the Nazis, a superficial picture of contradictions. Each party takes in relation to its own immediate problems a national line of its own. This necessarily results in sharp contradictions. The Italian Communists, for example, demanded that Trieste should be Italian, while the Yugoslav Communists were crying out for its incorporation in Yugoslavia. The German Communists protested against any proposal to sever the Ruhr or the Rhineland from the rest of Germany, whereas the French Communists appeared to favour severance, at any rate of certain areas, and to oppose German unification. The Soviet Union, as far as can be judged, has made no attempt to induce the various Communist Parties to harmonise their conflicting national policies—which indeed have served well the purpose of keeping Western Europe from achieving any sort of unity. But all the Western Communist Parties have echoed Moscow's objections to any kind of West European pact, as a move directed against the Soviet Union.

The question of the attitude of the Communist Parties of Western Europe is indeed crucial, and raises a vital issue for the Socialist Parties of the West. One possible view is that Communism and Social Democracy are forces so much at conflict that no co-operation between them can be even considered in any country

[1] See pp. 721ff.

that lies west of the 'line across Europe' that divides the Soviet from the Western sphere of predominant influence. This view is, of course, entirely inconsistent with everything I have been arguing for in this book. In the first place, it would involve perpetual conflict between Communists and Social Democrats in all the countries which lie along the line of division between the two Europes; and such conflict, whatever the fortunes of the contesting parties, would be entirely inconsistent with good international relations between the Soviet Union and those countries which took the Social Democratic side. It is not practicable to treat Communism as a form of leprosy at home and to collaborate cordially with its principal representative in the international field. Secondly, this view would lead, over a large part of Western Europe itself, and above all in France, to a disastrous division of the working-class movement itself, and to a pushing of the Socialist Parties into an alliance against the Communists with the reactionary forces in their own countries, and probably before long to the eclipse of Social Democracy as an effective political force. British Socialists can easily fail to see this because, in Great Britain, Communism is still almost negligible as a *political* force. The Labour Party can reject the overtures of the Communist Party of Great Britain not merely without electoral disadvantage, but probably with positive electoral gain. The same, however, is not true *industrially*, even in Great Britain. At present, the Communists in the Trade Unions are doing their best to help the Labour Government's production drive. If they were to change their line, for political reasons, and to use their influence to obstruct it and to stir up strikes and unrest, they are already powerful enough to do a great deal of harm.

Let us agree, however, that in Great Britain there is no sufficient inducement for the Labour Party leaders to accept any sort of political alliance with Communism, and that the same thing holds good for the Scandinavian countries. Where else does it hold good? Emphatically not for France, and not, I think, for Belgium or Holland either; and certainly not for Italy. As for Germany, the situation there is so different that I do not want to complicate the argument by considering it at this stage. France is the key country: let us consider France first of all.

The Political Situation in France

In France, to begin with, the Communist Party is not merely not politically negligible: it is the largest party and commands the electoral backing of the largest section of the working class. I am

not laying heavy stress on the fact that in recent French elections the Socialists have steadily lost ground, both to the Communists and to the non-Socialist parties; for that electoral trend is not necessarily irreversible. It is, however, plainly out of the question, for as far ahead as it is at all profitable to look, for France to be won for any sort of Socialism except on the basis of an alliance between the Communist and Socialist Parties. The only alternatives are either government by the Socialists in alliance with the non-Socialist, mainly Catholic *Mouvement Republicain Populaire* (M.R.P.)—a combination which would almost certainly lead, for the Socialists, to a further loss of working-class support—or government by the M.R.P. in alliance with the parties of the Right, with the Socialists neither opposing nor supporting outright—a situation very difficult to keep up, and again almost certain to result in loss of support for the Socialists—or a continuance of uneasy coalition government with the Socialists, the Communists, and the M.R.P. all taking part in it, and with each party blaming the others for its defects.

I know, of course, that at the moment,[1] the Communists and Socialists have not even together a clear majority in the French Chamber. They have lost the majority they had, largely because of their failure to work effectively together. I know, too, that Communists are very difficult to work with, and most difficult of all for Socialists who take the Social Democratic view. Nevertheless, the fact remains that in France, unless Communists and Socialists can work together, there is no hope of a Socialist solution of the political impasse that has existed ever since the liberation, and, beyond that, there is grave danger of a reactionary *coup d'état* that would be disastrous for French recovery, even if it did not involve a still more disastrous civil war.

It has to be recognised that there can be no victory for the French 'Left' without the Communists. This has to be recognised, not only in France itself, but throughout Western Europe, and above all in Great Britain, as a vital factor in the international situation. If the British Labour Party, or the British Labour Government, does anything that will tend to make it harder for the French Socialists and the French Communists to act together, it will be striking a blow at the prospects of Socialism, not only in France, but also throughout Western Europe. Nay more: if British Labour wishes for a Socialist solution of the problem of Western Europe, it must shape its international policy along lines which French Communists, as well as French Socialists, can reasonably be asked to accept.

[1] March, 1947.

The only alternative line for British Labour is to work deliberately for a *non-socialist* solution of West European affairs, by encouraging European Socialists to ally themselves with the (mainly Catholic) 'Popular' parties against the Communists. There are, I know, some Socialists so dementedly hostile to Communism as to prefer this solution, which would of course also be highly pleasing to the American State Department, since it would help to make Western Europe safe for capitalist enterprise as well as a bulwark against Communism. To me, at any rate, that seems a quite disastrous outcome. I am convinced that, in the not very long run, it would utterly wreck the European Socialist Parties and drive the major part of the West European workers over to Communism even against their wills; and I am no less convinced that, perhaps in a rather longer run, it would break the British Labour Party at least as seriously as Ramsay MacDonald broke it in 1931, and more irrevocably.

I am saying all this, though I am no Communist and no believer in Communism as a satisfactory way of resolving the social conflicts of Western Europe. I am saying it, because it seems to me to be the only reasonable conclusion that can be based on the admitted facts. I grant readily that such parties as the M.R.P. in France are by no means wholly reactionary. They include considerable socially progressive elements—among them many who, if they were in Great Britain, would be supporters of the Labour Party. These parties, in alliance with the Socialists, might be persuaded to go a considerable way in introducing social reforms and even in socialising certain industries. What they could not be persuaded to do would be either to make any direct attack on the class-system or to follow any international policy at serious variance with the anti-Communism of the Roman Catholic Church. They could not come to any real or cordial international agreement with the Soviet Union, and they would be bound, in any matter which sharply divided the Soviet Union and the United States, to take the American side—for the United States is now the main political bulwark of Roman Catholicism as a world political force.

The Chances of Socialism in Western Europe

I am arguing then, that, however things may seem to British Socialists looking at politics from a merely insular standpoint, the chances of Socialism in Western Europe depend on the West European Socialist and Communist Parties finding a basis for working together. I should regard this as a hopeless and unprofitable conclusion if I thought that the Communist Parties of

the West would simply take their orders from Moscow, irrespective of the views and feelings of their own peoples. But Communist Parties in countries where they are not already in power and able to control the elections can behave in this way only as long as they are merely small minorities, in a position to act solely as irritants and nuisances, and not expecting or aiming at responsible power. As soon as a Western Communist Party gets to be as big, or even half as big in relation to other parties, as the French Communist Party, it has to consider national opinion and to shape its policy in accordance with what it believes the main body of the working class in its own country to want, or to be ready to accept. Only on condition of doing this can it hope to hold its position as a leading party making a bid for power.

There is, I think, plenty of evidence that this fact is recognised in Moscow, and that the leaders of the Soviet Union are aware of the impracticability of attempting to dictate policy to the Communist Parties of Western Europe. They realise that these parties cannot hold or increase their influence unless they can frame their own policies in accordance with the prevailing sentiments of the peoples to whom they have to appeal. What has therefore to be considered is the attitude and strategy of these parties, and the sentiments which move their large bodies of working-class supporters—sentiments to which, as mass-parties, they will be bound to adapt their immediate programmes.

The most obvious thing about the Western Communist Parties is that, whatever their underlying philosophy, they are not aiming at revolution now. On the contrary, their aim is to prevent counter-revolution, or the re-establishment in power of those reactionary forces which, before and after 1939, showed plainly enough that they preferred Fascism to any form of Socialism. The positive programmes put forward by the Western Communist Parties are essentially moderate, and are at most points not easily distinguishable from the programmes of their Socialist rivals. On the basis of these programmes, and of the need for a common front against the renascent forces of reaction, they are crying for unity with the Socialist Parties, sometimes in the form of complete fusion of parties, but more often in that of close electoral and parliamentary alliance. The Socialists, however, are not very ready to take these overtures at their face value—partly because they feel that, in a crisis, the Communists would still take the side of the Soviet Union, right or wrong, even against the national sentiment in their own country, and partly because they have not forgotten the past and fear that Communist policy may at some future crisis be 'switched' again as abruptly as it was

'switched' in 1939 and in 1941, if not in response to 'orders from Moscow,' at any rate as a spontaneous reaction to a change in the international policy of the Soviet Union. Moreover, there are in the ranks of every Socialist Party some who have so deep a horror of Communist 'totalitarianism' that they would sooner side with capitalism or with Catholic reaction against it than contend with these forces as its ally.

To those who take up this last attitude I have nothing to say; for I could not hope to say anything that would convince them. But to the other two—and much larger—groups among the Socialists there is this to be said. When the situation is such that the Communist Party has a really strong hold on a considerable section of the working-class, so that there is no practical prospect of winning a majority for Socialism except in co-operation with it, refusal to co-operate can only lead to a consolidation of the forces of reaction. In the short run, this may mean a succession of weak and ineffective Coalitions incapable of taking any constructive stand in either home or foreign affairs: in the longer run it will either drive the Socialists into collaborating with the Right in restoring capitalism or squeeze them out between Right and Left, and leave them as no more than a relic of past wishful thinking.

Socialist Reconstruction in the West

There is no basis for the successful reconstruction of the economic and political life of Western Europe except a form of Socialism which can be fitted on to the still living tradition of West European culture and social development. The attempt to reconstruct on a non-socialist basis will lead politically to a feeble and unco-operative nationalism and economically to an increasing subjection of the West European economies to American capitalist permeation and control. The only escape from these disasters is in a kind of Socialism that can transcend national limitations without flouting national sentiment, and is in a position, on a foundation of domestic economic planning, to plan in common for Western Europe as a whole.

No such planning, and no such common Socialist policy for Western Europe, is even conceivable on a basis of antagonism to the Soviet Union, or without the positive participation of the Communist Parties of the West. The entire hope for Socialism in Western Europe therefore rests on finding means of making the idea of Western unity acceptable to these parties, and therewith of inducing the leaders of the Soviet Union to believe that, so far from being directed against them, it is as much in their interest

and in that of Europe as a whole as it is in the interest of the Western peoples.

How can European Socialists set about this double task of working more closely with the Communists for a Socialist solution of the problem of Western Europe, and of convincing the Communists of the Soviet Union that they are not plotting Western unity as a move in a capitalist-imperialist strategy directed against Soviet influence in the world as a whole? France, we have seen, is the key country; and the two essentials are, first, to establish a real effective working partnership in France between the Communist and Socialist Parties, and secondly to bind Great Britain and France firmly together for the pursuance of closely integrated common policies in both home and international affairs.

The first of these tasks is, of course, a task for Frenchmen to set about in their own way. The second, however, is a matter in which both peoples have to take a hand; and it is of the greatest importance that there shall be the fullest mutual understanding between them, and above all an understanding in each country of the sentiments which lie behind their at present divergent international policies. In Great Britain, the Right instinctively favours Anglo-American co-operation, which it regards both as likely to act as a brake on Socialist adventures and as a help in combating Soviet onslaughts on 'British imperialism'; and the Government finds itself compelled to rely on American help both for meeting its internal problem of keeping the people fed and supplied and for coping with its responsibilities in Western Germany. Even apart from this, Soviet Union pinpricks at British imperial interests have driven the British Government further towards common action with the United States; and the general effect is that we have a British Labour Government following a foreign policy which wins Conservative applause, but causes an increasing amount of uneasiness among the Government's political supporters. In Europe, Great Britain finds itself driven to aim at a policy which will at least reduce the costs of occupying Western Germany; and this necessity has led both to the insistence on restoring German unity as soon as possible and to the actual economic unification of the British and American zones, despite misgivings on the Left that the effect may be to open the road to a restoration of German capitalism under the auspices of American big business, and as an outpost of American capitalism in Europe.

What Most Frenchmen Want

Meanwhile, in France, there are certain attitudes which are common to the great majority of the people, to whatever party

they belong. First, most Frenchmen want the firmest assurances they can possibly get against German re-armament, not merely for a few years during which Germany is militarily occupied, but also thereafter, when the armies of occupation have been withdrawn. Secondly, most Frenchmen want a Germany weakened economically, as well as politically, because they do not believe that economic strength is reconciliable with political harmlessness. Thirdly, most Frenchmen want to maintain friendship, and if possible some form of alliance with the Soviet Union, for as long as there is any risk at all of Germany becoming again a danger to them. Fourthly, most Frenchmen are suspicious of American, and of Anglo-American, capitalist manœuvres both in and outside of Europe, and especially in the Near East. They think they were 'let down' over Syria, and that they are in process of being let down further by Anglo-American oil interests in Iraq and Arabia. Fifthly, many, if not most, Frenchmen regard France as the natural leader of culture and civilisation (not to mention investment) in Eastern Europe, and resent their exclusion from this 'sphere of influence.' Sixthly, most Frenchmen are nervous about the French position in North Africa, which they tend to regard almost as part of France, in face of the rise of Arab nationalism. And seventhly nearly all Frenchmen are well aware that their country is in no position to face either an international *or a civil* war without irreparable disaster.

These are sentiments, widely diffused among Frenchmen, of which the French Communist Party, fully as much as the other great parties, has to take account. It must shape its policy so as not to flout these sentiments, or its political influence will speedily wane. It must, moreover, set out to satisfy them in such a way as to give its followers, and all Frenchmen, the feeling that France is playing an independent rôle in European and in world politics and is not allowing itself to be made the mere satellite of any other power.

No Exclusive Union in Western Europe

This last point is of vital importance. It is out of the question for the French to enter into any sort of *exclusive* West European combination that would be inconsistent with the maintenance of close relations elsewhere. Not only would any such proposal be necessarily rejected out of hand by the French Communist Party: it would also be rejected by the great majority of Frenchmen in other parties. It would be represented as involving in effect the subordination of France to Great Britain as the stronger power; and it would most certainly be rejected in such a fashion as to

leave the relations between the two countries not better, but worse, than before it was made. This is the danger that besets any proposal for a Franco-British Pact, unless it is clearly put forward as the complement to Franco-Soviet and to British-Soviet Pacts at least as close in their political implications.

There is, however, nothing in this danger that need stand in the way of West European unity, provided that the approach is rightly made. If it is out of the question for France to tie itself more closely in political matters to Great Britain than to the Soviet Union, it is quite as much out of the question for Great Britain to tie itself more closely to France than to Australia and the other independent Dominions. Neither France nor Great Britain can contemplate an *exclusive* West European bond. But there should be no question of any such exclusiveness. What is wanted is not a banding together of the West European countries *against* any other country or group, but an agreement, or rather a series of agreements, for closer working together in matters in which the countries of Western Europe have a close common concern. These are, primarily, economic matters, cultural matters (including freedom of movement across frontiers), and such political matters as arise out of the possession of common traditions in the realms of government and administration. There should be nothing to prevent any member of the West European group from forming ties elsewhere: indeed, that there should be such ties is one of the best assurances against the group developing along the wrong lines. Nothing could help more towards a really effective Anglo-French Alliance, as the nucleus of a West European grouping, than the strengthening and prolongation of the Treaty of Alliance between Great Britain and the Soviet Union, for which Mr. Stalin seemed to be pressing in his exchanges with Mr. Bevin in January, 1947.

Anglo-French Economic Collaboration

One essential aspect of this Anglo-French co-operation is the closest possible economic association between the two countries in working out their plans for recovery and for industrial reorganisation. In France, the ambitious Monnet Plan, put forward at the end of 1946, called for a tremendous national effort to re-equip and modernise French industry with the aid of a heavy, and largely State-controlled, investment programme which was bound to put severe limitations on the consumption of the French people until their productive resources could be adequately restored. This plan, it was clear, could not be fully implemented without considerable loans of foreign capital, which could come

for the most part only from the United States. In this respect, Great Britain was not in a position to offer substantial help; but it was plainly of the utmost importance that the Monnet Plan in France and the plan for the allocation of British man-power and productive resources that was being worked out in Great Britain, under Mr. Herbert Morrison's chairmanship, early in 1947, should be as far as possible complementary and not conflicting, and should provide for the largest possible exchanges of goods between Great Britain and France. When M. Blum came to England in January, 1947, to discuss the terms of a proposed Franco-British Alliance, this economic aspect of the matter was by no means left out of account. It is, indeed, vital; and there is no good reason why much more than has been attempted in the past should not be done to link the British and French economic systems together on a complementary basis and to stimulate the development of mutual trade.

I think I have sufficiently shown, in earlier chapters, that there can be no sound basis for the non-exclusive kind of unity that I want to see in Western Europe without an agreed solution of the German problem. No Anglo-French agreement will yield real results as long as Great Britain and France remain seriously at loggerheads about the treatment of Germany. Nor, for that matter, will the existing Franco-Soviet Pact mean anything either, unless France and the Soviet Union can reach agreement about the German problem. This, then, is clearly the issue that needs tackling first—and it will, I hope, have been tackled before this book reaches the reader's hands. As far as I can see, there is only one way in which it can be tackled so as to secure agreement between France, Great Britain, and the Soviet Union, and therewith the assent of a clear preponderance of opinion in all three countries. This way I have suggested earlier in this book.[1] It involves the organisation of Germany within its reduced frontiers as a decentralised State, with wide powers of democratic self-government in each constituent 'Land' and with central organs, based on the federal principle, out of which a new United States of Germany can be allowed to grow without much delay. It involves, however, the placing of the Ruhr industrial area, or rather of the 'Land' containing it, in a special position, under the economic control of an International Commission representing the occupying powers, the other neighbouring States most directly interested, and Germany itself. This Commission would have as its mandate the development of the Ruhr's resources and industries for the benefit of all Europe, as well as the prevention of their use

[1] See page 770.

as a basis for rearmament. The Commission would own and administer the resources of the Ruhr as a trustee—in the first instance on behalf of all the interested countries and ultimately of the German people. The annexations of Poland and the Soviet Union in the East would be recognised (for what would be the practical use of disputing them?). The Saar would be severed from Germany and united to France as a separate Republic, much as the Grand Duchy of Luxemburg is united to Belgium. There might be other minor frontier changes in the West, to meet the claims of Holland and Belgium; and there would certainly have to be, for some time, a continued occupation of the Rhineland and an assured allocation of coal from the Ruhr, as soon as output passed beyond a certain minimum level, in order to satisfy the French demand that German industrial recovery shall not be to the prejudice of economic development in France itself.

Surely such a settlement ought to meet the French case, and to be acceptable to the Soviet Union. And surely the Americans, even if they disliked the public ownership of the Ruhr's industrial resources, would be prepared to fall in with it—for they are eager to limit the extent of their occupational commitments, and they have already stated officially that they do not object to public ownership of industry in Germany, provided that it is brought about with the agreement of the Germans themselves. This, to be sure, does not quite cover the point; for I am treating the question of the ownership of the Ruhr's resources not as a purely German, but as an international question. It is, however, not at all likely that the Germans would dissent, provided that it was made clear that the ownership was to revert, in due course, to the German people and that the establishment of the proposed International Commission carried with it a definite removal of the Potsdam restrictions on the permissible level of German production.

Franco-British Collaboration

At the same time as this solution of the problem of Western Germany was being offered to France by the British Government, there would need to be a wider offer of close Franco-British co-operation. Great Britain should go to the limit of its ability in extending temporary credits to France, and should take all possible steps to encourage the importation of French goods in exchange for the British capital goods of which France stands in urgent need. Everything possible should be done to re-establish and to extend freedom of movement between Great Britain and France, both for tourists and by exchanges of teachers and

students. Closer relations should be built up between the British and French Trade Union and Co-operative movements, as well as between the two Parliaments and the political parties. A great effort should be made not merely to settle differences, but to bring into being a common policy in handling Arab problems and in the Mediterranean as a whole. Great Britain should give the French cordial backing in measures directed against General Franco's misgovernment in Spain. In effect, even if the idea of common citizenship is not practical enough to be worth reviving, the nearest possible approach should be made to it in every field.

If a nucleus of Anglo-French unity could be formed, the rest of Western Europe would be certain to rally round it. There need be no formal federation, such as the advocates of Federal Union have wished to create: indeed, formal union or federation would be not only unnecessary, but positively disadvantageous between peoples which have deeply rooted political habits differing greatly from country to country. What Western Europe needs is not a common government, even on a federal basis, but a common *policy* in handling its relations with the rest of the world, and above all in finding a friendly *modus vivendi* with the Soviet Union and the States which fall within its sphere of influence.

NOTE: This book was finished when, in March, 1947, the U.N.O. Economic and Social Council set up special Regional Commissions to promote economic collaboration in Europe and in the Far East. The functions of these bodies were not at all clearly defined; and the Soviet delegate abstained from voting on the resolution laying down their terms of reference, so as to leave it doubtful whether the Soviet Union and its East European satellites would co-operate in their work. In the case of Europe, the Commission was definitely designed to cover the whole continent, including Germany; but the Soviet delegate objected that economic policy in Germany was entirely a matter for the occupying Powers. It was agreed that the new Commission should absorb the temporary Organisations previously set up to deal with European coal and internal transport (see p. 1006), as well as the Temporary European Committee which had drafted the scheme. The United States and Great Britain were to be represented on both the European and the Far Eastern Commission. The area to be covered by the latter, which is to have its headquarters at Shanghai, was left to be settled later; but it was definitely designed to include India, Indonesia, and Indo-China, as well as China and Japan—to the extent to which General MacArthur would allow Japan to be brought effectively within its scope.

For the new Asian Relations Organisation, see Note on p. 874.

CHAPTER III

WESTERN EUROPE AND WORLD AFFAIRS

THE CASE AGAINST WAR, as a means of settling differences among men, has always been strong; and to-day it is very much stronger than it has ever been before, because of the very prodigiousness of the destructive power that science has put into the hands of the war-makers. The atomic bomb frightened the Japanese, who are not given to fright, into instant surrender; and it terrified the victors equally with the vanquished. For the time being, the United States holds a practical monopoly of atomic power; for other countries, even where they know most of the secrets, cannot at present apply them. No one, however, supposes that this monopoly will last, or that any State strong enough to aim at playing a part in power politics will be for long without atomic weapons, or at any rate without the means of making them. What is still unknown is whether they will continue to be makeable only on the vast scale employed in producing the first examples, or will soon become easy to make on a relatively small scale—perhaps even by a few men, with a simple and cheap equipment such as can be easily set up and worked without attracting notice, in any country in which private enterprise remains the rule.

The Problem of Atomic Power

No one, except lunatics, can wish atomic bombs to become easy to make. In the extreme case, if any private 'dynamiter' could manufacture one at home, the world would be hard put to it to avoid becoming a prey to fanatics who would not scruple to pull civilisation about their ears. Even if the production needed moderate-sized factories and fairly expensive equipment, the prospect would be grim enough; for the new weapons, even if they could be denied to 'private enterprise,' would be within the productive capacity of a large number of separate sovereign States, and the devising of effective international controls could not be easy. If the feat remains for some time beyond the power of any except the largest and most highly equipped industrial countries, even that means that the very countries most likely to be antagonists in any future world war will enter it with atomic

weapons, and with the certainty, whoever wins, of doing a terrific amount of damage to each other—and probably to lesser countries as well—and of annihilating a great number of people on both sides before the issue is decided. Finally, even if the development of atomic energy can be and is made effectively an international monopoly under the control of a supreme international authority, and that authority thus gets the last word in everything, because nobody dare stand out against it, there remains the question: 'What sort of authority will it be, and for what purposes and to what ends will it exert its power?'

Or . . . can we hope that the power will be so great that no one in fact will dare use it at all? Will the sheer terror of war, with the new weapons, be so great as to prevent war from happening? Will it be, in the event, not the Security Council, or any peace-preserving organ of international government, but sheer terror that will induce the great States of the world to keep the peace? I have heard this suggested; and I agree that the fear of unloosing forces of sheer destruction is likely to make great States less ready to proceed to extremes, and more disposed to compromise, when they can do this without loss of relative strength. But it would be utterly unsafe to rely on this factor to prevent a recurrence of war in a world in which there is a real conflict of ideologies.

The Americans themselves, though they hold at present a monopoly of atomic power, are desirous of finding some means of controlling it internationally, because they realise that their monopoly will not last. Even if their immense industrial resources give them an assurance of their ability to remain the most powerfully armed country in the world, with the greatest command of atomic weapons, they are still desirous of international control, because they realise that, in default of real international understanding, the Soviet Union is certain before long to find out ways of producing its own atomic plants, and do not relish the prospect of a war which would inevitably be fought largely with atomic blow and counter-blow. In a world war fought on this basis, the United States might be certain of having the advantage of weapons; but it is also, because of its high degree of urban development, more vulnerable than the Soviet Union—though infinitely less vulnerable than Great Britain. For Great Britain at any rate it is obviously futile to play the game of atomic armament with a view to a future war; for in such a war, however much damage we were able to inflict on our enemies, we should assuredly be wiped out. It follows that it is no less futile for us to plan to enter a future war as allies of either the United States or the Soviet Union; for whether we found ourselves on the winning

or on the losing side, we should lose—so thoroughly that there would be nothing left erect of the society that we have made for ourselves, and are trying to remake.

Europe's Need for Peace

It is so much to our interest—nay, so much a matter of sheer survival—not to become involved in any future war that our weight as a nation is bound to be flung wholly and finally on the side of peace. Whoever may abandon U.N.O., we shall not abandon it, as long as there is any U.N.O. at all to stick by; because peace is our overwhelming interest and necessity. Indeed, for us, as a people, it is henceforth a case of peace at any price; and unpleasing as it is to have to say so, we shall be justified in future in abandoning *any* ideal sooner than go to war, if by doing so we can in fact keep out of war. We shall be justified, because no national leadership could be justified in condemning the entire people to mass-suicide. One can, for an ideal, be ready to give one's own life: one can even be ready, as citizen or as statesman, to send thousands or millions to their deaths in what is felt to be a good enough cause. Not for any cause, I think, can statesman or citizen be right in decreeing the unavoidable destruction of the entire society to which he belongs. Nor do I think that any Government could, in practice, act in such a way without being swept aside. The British people, I believe, will refuse, and will refuse rightly, to take part in any future world war. This is not to say that they might not be swept into it against their will; but, if they were, and were not wiped out before they had a chance of doing anything at all, I believe they would use any means in their power to get out again—including the power, which the French people exercised in 1940, of refusing to fight.

Can the U.S.A. or the Soviet Union Want War?

Of the United States, and of the Soviet Union, I make no similar assertion. I can quite imagine both of them preferring war to giving way over what the rulers of either regarded as a vital national interest, or as a matter of principle. I can imagine this because to neither of them would war mean inevitable annihilation. It would mean dreadful damage; but that is not the same thing. Either side could enter such a war with the hope of winning and of having enough man-power and resources left to reap the fruits of victory; for clearly the prize of victory would be world-domination. At the end of their conflict there would be no power left in the world able to challenge the victor, or even to offer any effective resistance to anything the victor ordered to be done. The

prize is glittering—not because there is much to be gained from ruling the whole world by force, but rather because there does seem a great deal to be gained by having no opposition to fear, and by being free to impose one's own ideas and way of life on other peoples as much as one chooses so to do. The victor might not choose to rule the whole world; but, without this, on any really crucial issue, his will would be law.

Accordingly, I do not see the terror of the atomic bomb as sufficient of itself to restrain the potential war-makers, or to keep the world at peace. The conflict of ideas between American capitalism and Soviet Communism cuts too deep for them to come directly to terms and share world power between them—unless the ideas themselves can become mollified and modified, or even transformed, by internal evolution in the two great societies concerned. The hope of permanent peace rests, not on the creation in U.N.O. of a force powerful enough to deter the antagonists from ever flying at each other's throats: it rests rather, in the long run, on an internal change in one of the two countries, or in both—a change of such a nature as to make the two countries capable of living side by side without continual quarrelling about their respective attempts to shape the conduct of other societies.

This does not mean that U.N.O. is unimportant, or that it is not worth while to make it as effective as it can be made in putting obstacles in the way of war. It is essential to do this; for by doing it we may gain for the world the indispensable factor—time. It will take time, even at the best, for the processes of internal change in the United States and in the Soviet Union to develop, so as to bring about the compatibility which is the only foundation for the comity of nations. Given time, there is no good reason to despair of this compatibility coming about. But there is no way of forcing the pace. U.N.O.'s task is to stall off war for the time, in the hope that it will not have to face an utterly intractable situation before the conditions of the problem have been radically altered.

The Changes Needed in American Society

What are the internal changes in American, or in Soviet, society, or in both, that would remove the imminent threat of war? As a Socialist, I naturally see need for much greater changes in America than in the Soviet Union. The most terrifying thing about the United States, under its present system, is its irresponsibility. It is committed, on principle, to letting its citizens do things, in pursuit of economic advantage, that are bound to endanger peace if, when trouble ensues, these trouble-makers

receive their Government's support. In home affairs, the American people are by now mistrustful enough of Big Business to put at any rate some limits to what it dare attempt; but American Big Business, in its operations abroad, and above all in backward regions, is still entirely without inhibitions. And American Governments, in the name of 'free enterprise,' are disposed to back up any line which American Big Business may choose to take in its dealings with other peoples.

The American people is not more ignorant of what is happening in the rest of the world than the people of Great Britain or of France; and it certainly knows a great deal more about such matters than the people of the Soviet Union. But that is not saying much; and in any case knowledge is not of much use unless it is applied in action. In the United States it is not so applied, except under the influence of temporary waves of feeling, which are often due mainly to the influence of 'pressure groups.' There is in America no steady popular sentiment about foreign policy; but there is a great deal of contempt. This is a dangerous attitude, because it renders American policy highly undependable. The Americans are very ready to lecture other Governments and peoples about what they ought to do, but are not equally ready to give them any steady help in doing it. No doubt, the United States did in the end decide to fight the Nazis; but not until it had been practically kicked into doing so. Its instinctive sentiment is isolationist, not in the sense of leaving other people alone, but in that of refusing to accept the commitments that logically follow upon interference.

To a certain extent, these qualities of American opinion are calculated to make it less likely that the United States will plunge the world into a war which the Soviet Union will be anxious for a long time to avoid. The American citizen-soldier does not like foreign service, or take kindly to the life of other countries. His desire to go home as soon as possible was unmistakable all through the later phases of the second World War and subsequently in the occupied zone of Germany. A war for the American 'way of life,' waged in Europe and in the Far East against the Soviet Union, would not be popular however unpopular the Soviet Union might be in the United States. Nevertheless, popular or unpopular, it would happen in the end, if these two countries were continually disputing all over the world. War would be staved off again and again by the unwillingness of both parties to engage in it; but there would come a time when both would refuse to give way, and then war would follow, because there would be no force powerful enough to prevent it,

and both parties would be unable to find any alternative to fighting it out.

At least, this would be so, unless there had been a fundamental change in the structure of American—or alternatively of Soviet—society. The change in America that would make all the difference would be the taming of American capitalism, including the capitalism that is in the minds of millions of Americans who are not capitalists in any ordinary sense of the word. I mean, in effect, a weakening of the speculative temperament that has hitherto pervaded American society. If, economically, the Americans could settle down to the task of steady development of their own resources, of lifting up the backward sections of their own people, of establishing social security, and of regulating the processes of production and distribution with these ends in view, their attitude to other peoples would undergo a deep change corresponding to the change in their management of their internal affairs. They would begin to stand powerfully for international planning, and, instead of acting as a disturbing force upon other countries, would become the most powerful influence on the side of world stability.

Can such a change come about? I have suggested in a previous chapter[1] that it is most unlikely to come about until the American people has been caught by another slump comparable in intensity with that of the 1930's. As a sequel to such an experience it might come very rapidly indeed. I do not profess to know to what sort of new economic system it would give rise, and I feel sure that this would be neither Communism *à la Russe* nor Socialism *à l'Anglaise*, but something different, and yet incorporating elements akin to both. More than this I cannot say; for it is not for an Englishman to work out the solution appropriate to the American conditions. I see, however, nothing to suggest that the Americans need fail to find for themselves a solution that will reconcile the stable enjoyment of their riches with what they feel to be valuable in the American 'way of life.'

The Changes Needed in the Soviet Union

As for the Soviet Union, the internal change that is needed there should present, in itself, much less difficulty. In the theory of Marxism, the dictatorship of the proletariat has always been regarded as a phenomenon of transition. The proletariat, indeed, cannot continue to dictate indefinitely, because its historic mission is to abolish itself, by creating the 'classless society.' When that society has come into being, there can be no dictatorship in the Marxian sense; for such dictatorship is essentially the action of a

[1] See pp. 952ff.

class. It is designed to continue as long, and only as long, as there remain unresolved elements of the old society to threaten counter-revolution if it is relaxed. In proportion to its success in liquidating the class-system it is bound to wither away. As it does so, the need for rigid discipline and for the suppression of dissentient opinion will wither too, and controversy will be able to return as fruitful debate without the taint of treason. The democratic freedoms which we value in the Western countries will be able to flourish in the Soviet Union on the firm foundation of the economic freedom which we do not at present possess. In effect, the Soviet Union will become an all-round democracy, with every chance of being very much more thoroughly democratic, in every sense, than any country in the world's history has ever been.

This, I know, will be vehemently denied. It will be contended that, whatever Marxist theory may prescribe, dictatorship in the Soviet Union will not wither away, and that dictatorship of a class will be replaced, if it has not been already, by that of a cabal. I do not believe this view to be correct. I agree that dictatorship in the Soviet Union may be expected to maintain itself, in one form or another, as long as the threat of another world war continues to exist, and that, accordingly, there is little chance of its disappearance as long as the United States continues to be the world champion of predatory capitalism. But as fast as the United States changes towards a more stable and equitable social system, I fully expect the Soviet Union to change too—towards a more liberal and less fear-ridden régime.

It is the task of the Security Council to hold war off, if it can, until these parallel internal changes in the world's two greatest countries can begin to produce their effect in relaxing the tension on the far-flung international front. In this task it can be greatly helped if there is always present a third party, with a supreme interest in keeping the peace. There can, in the nature of the case, be no third party strong enough to challenge either of the two Great Powers, or to constitute any threat to either within its own frontiers. But a third party, manifestly not dangerous to the security of either, can be of no help at all if it plainly becomes a satellite of either of the two; for in that event it will merely be reckoned in on the one side or the other in estimating the balance of forces: nay more, it will most likely become the cockpit in which they will fight out their differences.

Instead of trying to find fresh words to say over again what I have said already as well as I can upon this vital 'third-party' question, I shall again at this point insert a number of paragraphs from the pamphlet on *Labour's Foreign Policy* which I published in

April, 1946. Nothing that has happened since has modified my view that these are the lines on which we in Great Britain must work towards a solution of the great problem of world peace, as well as towards the rebuilding of our own society on foundations consistent with the present plane of world development.

The Problem of Western Europe

The imperative need for Socialist unity in Western Europe seems crystal clear. This is not because West European Socialists cherish ambitions to join forces with American capitalism in attacking the U.S.S.R. It is because Western Europe presents to them problems of its own which they cannot possibly hope to solve except by acting together, and because the chances of making Socialism strong and appealing to the peoples in Western Europe depend on this unity. Every Socialist movement in Western Europe would be immensely strengthened against the forces of reaction in its own country if it could act in the consciousness of having behind it a united policy, supported by the Socialists in other neighbouring countries, for concerted action to raise European standards of living and to provide a secure basis for a Socialist way of life that would discard what is bad, while continuing what is good, in the West European political and social tradition.

Moreover, it is no small element in the case for West European unity, on a Socialist basis, that it would enable the nations of Western Europe, instead of being under the thumb of the United States on account of their divergences and economic weakness, to face the American capitalist pressures on much more equal terms. I am not suggesting that the West European Union would be directed against the United States, any more than against the Soviet Union. But it would be designed both to help the peoples of Western Europe to develop their own economic resources and lessen their dependence on the United States, and to enable them to carry out in common a programme of 'liberal Socialism' which would conserve what is good in their existing cultures while adapting their political and social, as well as their economic, institutions to the requirements of the modern world.

The West European Way of Life

Let me try, at this point, to make as clear as I can what I mean, and what I do not mean, by the unity of Western Europe. I mean, above all, a pact among the countries of Western Europe to maintain the Western way of life, while adapting it to the material conditions of living in the twentieth century. This way

of life, which exists in different degrees of development in different countries, I regard as involving, as primary, the following things:

(1) A respect for the individual, as a person with a right to his own judgment and his own choice of interests and activities, within the general framework of a state system designed to safeguard personal liberty, and not to subordinate the individual to the State more than is necessary in order to safeguard the liberty and welfare of others.

(2) Toleration of difference, in both habits and opinions, up to the very limit to which such toleration is consistent with the preservation of the national way of life.

(3) Free speech, and freedom of writing and of association, including freedom to criticise the Government, up to the same limit.

(4) The practice of settling policies and programmes by free discussion, and of considering the claims of minorities to the fullest extent that can be made consistent with the adoption of the essentials of the majority view.

(5) Free elections, so conducted as to give minorities a reasonable chance of representation, not necessarily in proportion to their numbers, but to the fullest extent that can be squared with the need for strong and coherent government.

(6) Social behaviour which is designed not to carry political or religious differences into everyday life, so as to prevent friendly social intercourse between those holding different views.

(7) The pursuit of welfare and social security as conscious political and economic objectives, on the basis of recognising every person's right to an assured minimum standard of life.

(8) An educational system designed to give every child a chance of becoming a tolerably well-equipped human being, capable of active citizenship and of a satisfactorily rounded personal and family life.

(9) Legal safeguards, where necessary against the Government, for the individual in his enjoyment of the rights accorded to him under the law in accordance with the foregoing principles.

(10) A belief in morality, as binding upon States as well as on private persons, and as the necessary foundation of sound relations between as well as within national communities.

I realise, of course, that many of these 'freedoms' are in fact very imperfectly recognised and safeguarded in the countries even

of Western Europe. Nevertheless, I think the West European way of life does rest to an appreciable extent on an acceptance of them, strongest in Great Britain and in the Scandinavian countries, but plainly present also in Holland, in Belgium, in Switzerland, and in France. I agree that neither Spain nor Portugal belongs at present, in this sense, to the comity of Western Europe, and that Italy is on the margin, with her capacity to live by the Western rule still unproven. On the other hand, Austria, or at any rate Vienna, does belong to the West, whereas Greece clearly does not. What I want, then, is a unity of the West, based on close community of thought and action in accordance with these principles, above all between Britain, France, Holland, Belgium, Switzerland, and the Scandinavian countries, with the door kept open for other possible but more doubtful members of a Western group.

What Western Unity Involves

The principles just stated are, of course, by themselves no more than underlying attitudes which make unity possible. The practical question is how to square them with the material conditions of life in the twentieth century. My essential contention is that this can be done only on a basis of what I have called 'liberal Socialism.' The authoritarian Socialism of the Soviet Union is not compatible with these essential freedoms, which form an essential part of the Western way of life. It has faced with great success the problem of devising a kind of Socialism that meets the material requirements of our time; but, heir to a very different social and cultural tradition from our own, it has seen no need to give many of the freedoms which we value most highly a place in its new way of life. The West, on the other hand, while showing considerable tenacity in retaining its cultural traditions, has so far failed almost entirely in making the requisite adaptations to the changed material foundations of living, and has, even to-day, set about the work of reconstructing its damaged social structure on an obsolete basis of national sovereignty and purely national economic effort.

As against this, I claim that the problems of Western Europe are insoluble except on supra-national lines. The economic structure of the new Western Europe needs planning as a whole, on a basis of wholehearted co-operation. The tariff and currency barriers need taking down, so as to constitute a free trading area with a market comparable in extent with those of the United States and the Soviet Union. The transport systems need to be rebuilt on international lines: the movement of both goods and men needs to be made free of all impediment over the entire West European area. Industry and agriculture need planning as complementary

services for the whole of Western Europe, and not in terms of prospective national competition. The use of rivers for power as well as for transport needs supra-national planning. Unless these things are done, Western Europe will not be able to stand up economically to the commercial and capitalistic power of the United States, or to achieve social security for its peoples at a satisfactory standard of life

It is, however, impossible even to begin planning such matters as these on the required supra-national lines unless the Governments of the countries concerned are like-minded, and are ready to pursue internal policies of economic planning with social security and social welfare as their essential objectives. The only Governments that can be relied on to do this are Socialist, or predominantly Socialist, Governments, such as exist already in Norway and Sweden, as well as in Great Britain, and could exist in France and Holland and Belgium, and probably elsewhere, if only Great Britain would give the right lead.

The Political Structure of Western Unity

This is the economic aspect of Western unity, which is indispensable in order to give the political aspect a real and substantial content. Politically, the structure need not be at all elaborate, if only the right economic links can be successfully made. I see no necessity for a common Constitution or for a common Parliament, even of a federal type. The whole thing could be done by treaties, filled out by agreements for close economic collaboration; and the political machinery could be no more than a periodically-meeting West European Congress, which could be created as a 'regional group' within the framework of the United Nations Organisation, and on lines parallel to those of the existing Pan-American Union. Such a Congress would debate policies and set up Commissions to draft agreements for ratification by the national Parliaments, and to supervise their execution when they had been duly ratified. There would be no need to supersede, or to interfere with, the separate forms and methods of government in the different countries—only to persuade them to shape their policies in common on a number of questions which call imperatively for supra-national action.

There are, indeed, certain terms of unity which I should like to see written into the common agreement of the West European States. I should like complete freedom of movement, without passports or visas, to be established over the entire area. I should like any citizen of any country within the group to be recognised, on the basis of a simple residence qualification, as a citizen of any

other, to the extent of acquiring full legal and voting rights. I should like to see conventions agreed on by all countries in the group on such matters as patents, company laws, Trade Union rights, libel laws, double taxation, and, as far as possible, social insurance and minimum conditions of employment. And I should hope, as soon as possible, for a truly common currency, resting on the foundation of an agreed policy for the maintenance of full employment over the entire area.

Western Unity is not *Military Alliance*

As for military affairs, I do not want Western unity to be involved in them in any way. It would be a great mistake to create in Western Europe any sort of *bloc* of armed force, even if it were organised only as a common contribution to U.N.O. Any proposal to make a military, as well as an economico-political, group in Western Europe would inevitably arouse, as matters stand, all the worst suspicions in the Soviet Union; and, even apart from this, it could be represented as implying an abandonment of U.N.O. as the international instrument for the prevention of war. Hopes of U.N.O.'s effectiveness in this sphere have already sunk, in many places, uncomfortably low; but it would be altogether wrong, and contrary to the common sentiment of the West European peoples, to take any line that would further weaken U.N.O.'s position, or turn the West into an additional (and certainly ineffective) power *bloc* to match its strength against the Soviet Union or the United States, instead of standing as the champion of world order and a representative of the smaller countries in the endeavour to make an end of military power-politics as the determinant of world affairs.

I am not, then, urging any sort of military alliance among the countries of Western Europe. On the contrary, I want them to eschew all projects of such alliance, both because it could not really help them to solve their problems and because it would inevitably be taken as a hostile move both by the Soviet Union and by those who are working to make U.N.O. a reality. The unity Western Europe needs is not military: it is cultural, economic, political in the sense in which politics are a matter, not of war, but of the arts of peace.

On this basis, which I hope I have made sufficiently clear, I am pleading for the recognition of Western unity as a primary objective of British foreign policy to-day. Of course, I am well aware that this unity cannot be easily achieved. There are many complicating factors, even apart from the present hostility of the Soviet Union to *any* proposal for closer grouping. For one thing,

there are the complications which arise out of the existence of dependent empires attached to a number of the European States —to France and Holland, for example, as well as to Great Britain. Nor do I deny that the effective unity of Western Europe involves as a prior condition an agreed solution of the problem of Germany. What I am denying is that, in the circumstances that now exist, West European unity on a broadly Socialist basis could be to the detriment of the Soviet Union, or indeed to anything save its great and lasting advantage.

Western Europe, the Soviet Union, and the United States

The case for West European unity, as I have set it out in the foregoing pages, is based on the belief that there exists among the peoples of Western Europe—or at all events among most of them —a deep-seated similarity resting on a common way of life and, at bottom, to a great extent a common set of values. There are, of course, large differences between these peoples—for example, between the French and ourselves—but I have written in the belief that these differences are, from the world standpoint, much less important than the underlying similarity of culture. Naturally, this view implies that other peoples, in other parts of the world, are separated from the peoples of Western Europe by much deeper differences, though we have all certain things in common as members of the human race. I have not attempted to define the values or ways of life of these other peoples, as I have those of Western Europe; for any such attempt would lead me much too far afield. There is, however, one aspect of the difference about which I must say a little, because it deeply affects the prospective relations of a united Western Europe with the rest of the world.

Our differences from the Americans in values and way of life are based mainly on this—we in Western Europe are old, settled peoples, with long, continuous national traditions, living thick on the ground, and long accustomed to the husbanding of scarce resources. The Americans are a new people, of very mixed racial composition, still imperfectly fused into an American nation, and living scattered over a vast continent, whose resources they have been accustomed, until quite recently, to regard as boundless. These conditions make us cautious, and the Americans immensely speculative, in temper: they make us think of planning in order to get enough to live on, whereas the Americans, despite their experiences in the 'thirties, still think in terms of personal adventure in a world where plenty is to be had for the snatching. These attitudes express themselves politically in our liberal Socialism and their passion for capitalistic enterprise. We and the Americans

have to live together in the world of to-day and to-morrow on a basis of recognition of these differences and of mutual accommodation between our several ways of life.

The Russian attitude is to some extent like the American; for it too starts from the assumption of vast resources waiting to be exploited. But it is also radically different, because it rests, not on the gradual filling up of an empty continent, but on the foundations of an old autocratic State whose inhabitants have been used to dire poverty. The problem for the Russians is not that of making a nation out of many heterogeneous groups living all mixed up and coming out of widely different cultural environments (though of course they too have their problems of nationalities and national cultures); it is rather that of lifting a vast mass of primitive peasants quickly to the level of an advanced industrial civilisation, and of making them capable of using the great resources of their country with enough skill to raise the entire standard of life. This task leads them to planning on a vast scale, whereas the Americans, with their higher standards, still put their trust in private enterprise. Moreover, the Russian kind of planning is designed to mass-produce not only goods but also men of the industrial age. It therefore insists on uniformity; and this insistence is the easier because insistence on uniformity comes natural to the primitive human material with which it has to deal. Primitive peoples do insist on uniformity: the growth of diversity is a characteristic of advanced economic civilisations, and can be only gradual, if what Bagehot called "the cake of custom" is to be moulded and not broken in the process. We and the Russians have to live together in the world to-day and to-morrow on a basis of recognition of these differences and of mutual accommodation between their way of life and ours.

Western European Unity and World Unity

There is no reason why we should not achieve this accommodation—we West Europeans, the Russians, and the Americans—to say nothing of the Indians, the Chinese, and the other great groups of the human family. Our differences can be prevented from developing into quarrels if the will to prevent this is present. We can divide the world between us, into our several spheres, within which we can practise our several ways of life; and indeed, we must do just this, if we are not to tear the whole world to pieces, and leave but a desert—if even that—behind. My plea for Western unity is part of a wider plea for this zoning of world affairs. The time for closer world unity, based on a common set of values and a common way of living, may come; but it has not

come yet. We can do something to work towards it through U.N.O. and its related organisations, particularly those which have for their mission the furtherance of common basic standards of living over the whole earth. What we cannot do is to hurry world unity ahead of the building of secure foundations for it; and, this being so, we must use regional unity as a bridge, wherever we find nation-groups like-minded enough to achieve a mutual accommodation of their own. The United States and the Soviet Union are regional units, by themselves or with immediate neighbours not comparable with them in size or resources. Such countries as Great Britain and France are not regional units; but they can make a regional unit by coming closer together, and in doing so can further world co-operation and the success of U.N.O. in working for unity over a wider field.

Will the Soviet Union Play?

Of course, success in this depends on all the leading parties being willing to play. But, I shall be asked, is there any real prospect of the Soviet Union doing this? Yes, there is. The Soviet Union's present attitude rests on a fear of attack from the combined forces of world capitalism—among which it reckons the countries where Social Democracy or liberal Socialism is in office, on the ground that these countries have not changed the essential basis of their institutions (much, by the way, as we are apt to see close resemblance between Czarist and Soviet policy in foreign affairs). We in Western Europe can overcome these suspicions by making it plain beyond a doubt that we stand not as the allies of American capitalism, or for any sort of capitalism of our own, but for Socialism—the liberal Socialism which is the appropriate twentieth-century form of our evolutionary way of life. If this is what in truth we do stand for, the leaders of the Soviet Union will be bound in the long run to see that it is, and to adapt their behaviour accordingly. *But we cannot expect them to see it unless we make it true; and it is not yet true in any full sense. Only West European unity, of the kind I have attempted to set forth, can make it true.*

The Liberal Socialist Foundations of Foreign Policy

It is, of course, an implied term of this expectation that the unity of Western Europe should rest on Socialist foundations; and I have tried to show that this can be the case in the near future only if the British Labour Government puts itself plainly at the head of the liberal Socialist forces in the West, comes to terms with France, and, in conjunction with the French Socialists, settles the German problem in such a way as to give hope to the democratic

elements in the German people of taking their due place in a Socialist federation of the West, based firmly on the liberal tradition and on the great cultural inheritance which is in danger of being obliterated by the clumsy hands of younger States armed with vaster material resources. This tradition and this culture it is the task of liberal Socialism not merely to preserve but to transform into an instrument of equality and fraternity, as well as of personal liberty. The task is hard; for it is bound to be easier to let the old culture decay than to regenerate it, and it is idle, at present, to look for help in the work of regeneration either to America or to the Soviet Union. The culture we are seeking to transform is ours and not theirs; and we cannot expect them to understand why we believe in it and cannot, as peoples of the Western tradition, be happy with either of the new mass-cultures which seem to them so manifestly superior. The task falls upon us —upon the Socialists of the West—to restore and transform our own values; and we cannot hope to succeed unless we act and think and feel together to a far higher extent than ever in the past.

The Patterns of World Culture and the Socialist Task

But, in acting together, we must not assume that our culture alone is right and good, and the others wrong and evil. The point is not that our way of life is better than the Russian or the American way—an issue on which I give no opinion—but that it is *our* way, and a necessary foundation for the happiness of the peoples whose inheritance it is. We must accordingly build up and reinterpret our way of life, so as to give it a liberal Socialist basis, not in hostility to other cultures, but as complementary to them, and especially as complementary to the different version of the Socialist faith that has found acceptance in the Soviet Union, with its vastly different cultural inheritance. In the achievement of world cultural tolerance, akin to the tolerance we value within our own culture but on a vaster scale, lies the hope of world peace and of advancing prosperity and well-being for all peoples. Towards this goal must the foreign policy of Great Britain be directed, if the Government is to be faithful to the millions who, with some vague feeling of all this in their hearts and minds, voted it into power, giving it a tough job to do, but one which it has a better chance of doing than any other Government in the world, and with better and more understanding popular support.

CHAPTER IV

NATIONALISM AND INTERNATIONALISM

"They [the President of the United States and the Prime Minister, Mr. Churchill, representing His Majesty's Government in the United Kingdom] respect the right of all peoples to choose the form of government under which they will live and they wish to see *sovereign rights and self-government* restored to those who have been forcibly deprived of them."

The Atlantic Charter, Clause 3, August 14th, 1941. Repeated in the Crimea Communiqué, Clause 5, February 11th, 1945.

"They [the Governments of the United States, the United Kingdom, the U.S.S.R., and China] recognise the necessity of establishing at the earliest practicable date a general international organisation, based on the principle of the *sovereign equality* of all peace-loving States. . . ."

Moscow Declaration, Clause 4, November 1st, 1943.

"The purposes of the United Nations are . . . 2. To develop friendly relations among nations based on the principle of *equal rights and self-determination of peoples*."

United Nations Charter, Article 1, June 26th, 1945.

"The Organisation [U.N.O.] is based on the principle of the sovereign equality of all its members."

United Nations Charter, Article 2, June 26th, 1945.

Sovereign Equality

WHAT DO THESE WORDS "sovereignty," "sovereign rights," "sovereign equality" mean? Sovereignty is a legal conception, which has been translated from the sphere of law to that of politics, without losing its legal character. The "sovereign," in both legal and political theory, means the person or the persons with whom, in any society, supreme power rests. Hobbes used the word to designate the absolute ruler he regarded as indispensable in any State. Austin, the jurist, defined the 'sovereign' as a "determinate human superior" legally entitled to demand obedience from the subjects. Both Hobbes and Austin recognised that 'sovereignty' might reside either in one man or in a number—for example, in an aristocratic council or in a democratic assembly. But they held that in any State there must be *some* person or group

of persons in whom the final power to make decisions and to exact obedience is vested.

Most adherents of the notion of sovereignty have held that sovereignty is indivisible. This has given rise to difficulties wherever constitutions have rested, as in the United States, on the separation of powers. In America final authority is in fact shared between the President, the Congress, the Supreme Court as interpreter of the Constitution, and the States, by virtue of their power to amend the Constitution.

Rousseau re-stated the doctrine of sovereignty by distinguishing the 'sovereign' sharply from the 'government.' According to him, the only legitimate sovereign is the entire people. He argued that 'sovereignty' could not be divided because it rested inalienably with the whole people and could not be transferred from the people to any government. He regarded all governments as either merely delegates of the sovereign people or usurpers. Rousseau favoured small States in which all the people could meet together in a general assembly to instruct or change the government and to decide on fundamental issues.

The leaders of the French Revolution adopted that part of Rousseau's doctrine which laid down that sovereignty resided, inalienably and indivisibly, in the people, or, as they usually preferred to say, the 'nation.' But, unlike Rousseau, they held that sovereignty could be vested in a national assembly of delegates chosen by the people. They identified representative government with sovereignty.

Presently Napoleon, and later Napoleon III, claimed to be sovereigns, not like the old kings, by divine or prescriptive right, but as chosen by the people to hold supreme power. Hitler and Mussolini made, in effect, the same claim.

As soon as sovereignty is said to reside in any person or persons *as of right*, divine or moral, it ceases to be a merely legal conception. Legally, the sovereign is simply the person or persons actually holding supreme power in the State. The doctrine of popular sovereignty is a statement that the people *ought to* hold supreme power, not that it actually does.

L'état, c'est moi, the motto of the old absolutism, identifies the State with the sovereign; and this identification is usually combined with an identification of the 'State'—that is, of the machinery of government—with the whole society. Thus, the 'sovereign' is regarded as standing for, or representing, the whole society.

The notion of sovereignty, in both legal and political theory, refers primarily to conditions inside a society. It has to do with the

relations between the 'sovereign' and the 'subjects,' who are bound to obey the sovereign. But as soon as the 'sovereign' is identified with, or is regarded as representing, the entire society, the problem of the relations between one society and another comes to be that of the relations between their respective 'sovereigns,' who alone are entitled to speak on their behalf and to enter into arrangements regulating the relations both of the societies and of the 'subjects.'

These relations are the domain of International Law, which has two branches, Public and Private, dealing respectively with the relations between States, or societies, and with the relations between citizens, or subjects, of different States.

Popular Sovereignty

The notion of 'State Sovereignty' arises in connection with Public International Law. It is the conception that each State is represented by a 'sovereign' who is all-powerful in deciding what is to be done within the national frontiers of his State. This 'sovereign,' let us be clear, may be an individual, or a limited assembly, or the whole people assembled, or an assembly of delegates representing the people. The complete 'sovereign right' of each State, in this sense, is expressed in the term 'self-determination.' Where, as in the United Nations Charter, what is spoken of is "the self-determination *of peoples*," it is implied that, in some sense, sovereignty resides as of right in the people, and not in any exclusive ruling class.

The notion of 'State Sovereignty' involves the further notion that, where there exists a 'sovereign' that is regarded as representing the people, no person and no other sovereign State has any right to interfere between that sovereign and his, or its, people. The sovereign State is regarded as completely autonomous in the conduct of its own internal affairs. This is expressed in the Atlantic Charter in the declaration that demands "respect" for "the right of all peoples to choose the form of government under which they will live." It is the primary meaning of the words "sovereign rights and self-government" used in the Atlantic Charter.

To what extent does this right of a State, or society, to manage its own affairs imply that it is free to do just what it pleases in its relations with other States, or societies? The extreme form of the doctrine does lay down that each State is entirely free in this respect; but this view is contrary to the basic notion of International Law, which is that there is a 'law' governing, in accordance with principles of universal validity, the relations both

between one State and another and between man and man, wherever citizens or subjects of more than one State are affected.

The Basis of International Law

This conception of a morally binding International Law comes down from ancient times. It has commonly been associated with the idea of "natural law," founded on generally recognised principles of just dealing. Many great thinkers and jurists have argued that any national law which violates the principles of international, that is of natural, law cannot be binding, and that no 'subject' of any State can be morally bound to obey such a law. Others have contended that, although 'sovereigns' have no right to prescribe anything which is against 'natural law,' their subjects cannot be allowed to constitute themselves judges of when their 'sovereigns' are doing this, and are morally as well as legally bound to obey any order the 'sovereign' actually gives. This leaves open the right of other 'sovereigns' to interfere against a 'sovereign' who violates 'natural law,' and thus limits 'State sovereignty.' Yet others, e.g. Hegel, have held that there is no right anywhere to question the decrees of the Sovereign State, which are to be regarded as the absolute expression of the divine will. But what this doctrine implies in practice depends on how the 'Sovereign State' is defined. If it is defined as the State which is following the divine will, any State which violates natural law cannot be a Sovereign State, and is not therefore immune of right from being interfered with. Leaving aside this metaphysical nonsense, we may say that the real questions at issue are (*a*) whether a subject is bound to do what he believes to be wrong because his sovereign commands it; (*b*) whether other States have a right to coerce a State which they, as represented by their 'sovereigns,' hold to be doing wrong; (*c*) whether there can, or should exist, any supra-national body authorised to define what is right and wrong in the behaviour of States, and what principles should regulate the relations between States and the private rights of subjects or citizens in international dealings.

The attempt to embody 'natural law' in an actual code of legal principles first took shape in the *jus gentium*, or 'law of peoples,' of the Romans. This began as a set of rules for administering justice in cases involving 'foreigners' who had their own national or tribal laws. Side by side with the development of this code, legal and political theorists developed, largely on foundations laid by the Stoic philosophers, the conception of the "law of nature," which was held to be discoverable by the exercise of human

reason, and to be capable of being embodied in principles of universal justice. Christian writers came to identify this 'law of nature' with the 'law of God,' and to hold that its principles should be sought 'in revelation'—that is, in the Scriptures—as interpreted by human reason. This notion of a law of universal validity—a law at once God's and nature's—runs through the political and legal thought of mediæval Europe.

In the seventeenth century, as national States began to take clearer shape and great wars were waged between them, it came to appear a matter of the greatest importance to lay down plainly any rules that could be held to govern the right behaviour of States, especially in time of war. Grotius and other great jurists of the time attempted to formulate the *jus belli ac pacis*—the laws of war and peace—and in doing so laid down codes of international behaviour dealing with such matters as the right to enslave captured enemies and the treatment of prisoners of war, the rights of armies to destroy the property of citizens of enemy States, the treatment of civilian populations in case of invasion, the rights of blockade and capture at sea, and many other matters. The treatises of Grotius and of other great jurists of the seventeenth century form the basis upon which modern conceptions of International Law have been mainly built.

Is International Law really Law at all?

The question has often been asked, Is such 'law' really law, unless there is some authority to enforce it? The doubt arises because the word 'law' can be used in several different senses. A national 'law' is an act or ordinance which the 'law courts' of the country concerned will apply and enforce as occasion arises. A 'law' of nature, or of God, is evidently something different from this. It is either what God commands us to do and enforces by superhuman sanction, or what we *ought* to do if we wish to live in accordance with nature, which is generally interpreted as meaning in accordance with the precepts of reason. It is, no doubt, what the law of the law courts ought to be framed so as to carry out; but there may be many things we *ought* to do which it is inexpedient for the law courts to force us to do, though they ought not to force us to do anything contrary to natural or divine law. Natural law, then, can be regarded in two ways—as divine law, which God enforces in his own courts—at the Day of Judgment—or as the law of reason, which we can arrive at for ourselves by examining our own notions of right and wrong and by following up their implications and applications. Seen as divine law, this law is like the law of the law courts in being enforceable,

but not by human agency: seen as the law of reason, it is not enforceable at all, but is simply a statement of how we *ought* to behave. In historical development, these two ways of looking at natural law have been so intermingled that it is impossible to tear them apart. The more the notion of 'divine law' is discarded for that of the 'law of reason,' the less resemblance is there between the 'law' of the law courts and the 'law' of nature.

International law, as it was developed in the writings of the great jurists, had its two branches, public and private. In its private aspect, it grew into the complicated systems whereby each country deals in its own courts with cases which raise the question of 'conflict of laws,' e.g. in relation to marriages between persons of different nationalities, inheritance of property, and commercial contracts. These matters are sometimes regulated by international conventions; but neither Great Britain nor the United States signed the Hague Conventions (1896–1905) dealing with them, chiefly because the fundamental notions of British (including American) and Continental law are at variance, the British lawyers holding that in general a person should be judged by the law of the country in which he is domiciled, whereas the continental codes adopt the concept of a person taking his national law with him wherever he goes. In its more general aspect, international law took shape, in Blackstone's phrase, in "a system of rules, deducible by natural reason, and established by universal consent, among the civilised inhabitants of the world, in order to decide all disputes, to regulate all ceremonies and civilities, and to ensure the observance of justice and good faith in that intercourse which must frequently occur between two or more independent States, and the individuals belonging to each." This definition is obviously framed to cover both public and private international law. Lord Russell of Killowen, in 1896, defined public international law as "the aggregate of the rules to which nations have agreed to conform in their conduct towards one another."

The Hague Conventions and the Laws of War

These rules, in the aggregate, are nowhere precisely defined, nor are there any general sanctions for their observance. States have, however, frequently asserted their willingness to be bound by them. Thus, in the Treaty of Aix-la-Chapelle (1818) the rulers of Great Britain, France, Austria, Prussia and Russia declared that "the sovereigns in forming this august union [the Holy Alliance] have regarded as its fundamental basis their unchangeable resolution never to depart, either amongst themselves or in

their relations with other States, from the strictest observance of the principles of the law of nations, principles which, in their application to a permanent state of peace, can alone effectively guarantee the independence of each government and the stability of the general association." This sounded well, but was quite unprecise; and the attempt to formulate positive agreed rules, which was begun in the Declaration of Paris (1856), dealing with the right of capture at sea in time of war, was not taken seriously in hand until the Hague Conferences of 1899 and 1907. The Conference of 1899 set up the Hague Court of Arbitration, to which States could refer for settlement any dispute of a 'justiciable' character; but such reference was entirely optional. The Hague Conferences, especially that of 1907, drew up a series of conventions dealing with the usages of war; and these conventions were ratified by most of the leading States. They had, however, no sanction behind them; and apart from the matters specifically covered by them, public international law continued, right up to 1919, to consist in effect of a series of precepts embodied in the writings of a number of international jurists.

The League of Nations Covenant

The League of Nations Covenant of 1919 was an attempt to advance towards a more positive conception of public international law. In the light of more recent events, the most remarkable fact about the League Covenant is that it passed over the question of national sovereignty in entire silence. Its preamble committed the member States to "the acceptance of obligations not to resort to war," to "the prescription of open, just and honourable relations between nations," to "the firm establishment of the understandings of international law as the actual rule of conduct among Governments," and to "the maintenance of justice and a scrupulous respect for all treaty obligations in the dealings of organised peoples with one another." It said nothing about the 'sovereignty' or the 'sovereign equality' of these States or peoples; but it did lay down that "except where otherwise provided . . . decisions . . . shall require the agreement of all the members of the League represented at the meeting." The Hague Court was supplemented by the Permanent Court of International Justice, with jurisdiction to deal with all cases that member States chose by agreement to submit to it; and its statute contained an 'Optional Clause' which pledged any State signing it to send to the Court every justiciable dispute arising between it and another signatory State. The Court was instructed in deciding cases to apply "international conventions, whether general or particular,

establishing rules expressly recognised by the contesting States; international custom, as evidence of a general practice accepted as law; the general principles of law recognised by civilised nations; and judicial decisions and teachings of the most highly qualified publicists of the various nations, as subsidiary means for the determination of rules of law."

The Court could deal only with disputes of a 'justiciable character,' defined in the Optional Clause as including interpretation of treaties, any question of breach of international obligation, and "any question of international law," which was not further defined. It did not cover at all disputes of a non-legal character, which were to be dealt with under the Covenant by the League Council and Assembly. The most important clause of the Covenant in this connection was Article 15, which bound the member States to submit to the League Council any disputes between them which they did not agree to refer as 'justiciable' to the International Court. The Council could either itself report on such disputes or could submit them for report to the League Assembly. Reports could be made by a majority vote; but there was no obligation on any State to carry out the recommendations unless these were agreed upon by all the States with seats on the League Council—that is, by all the major League Powers—except those which were directly parties to the dispute. Even if this agreement was secured, the only obligation imposed on any State under Article 15 was that of *not* going to war with any State which was carrying out the recommendations of the League. Thus, under the League Covenant, even a Great Power could, at any rate in theory, be overriden in relation to a dispute in which it was directly involved, if all the Great Powers not so involved were against it; but there was nothing in Article 15 to compel a State which was thus overruled to carry out the recommendations of the League. Article 16 did indeed refer to "sanctions," but only against a member State which actually resorted to war "in disregard of its covenants." Article 12 included a provision binding member States, if any dispute likely to lead to a rupture arose between them, "to submit the matter either to arbitration or judicial settlement or to *enquiry* by the Council"; but a State which had complied with this request was not thereby bound to accept the results of the enquiry, nor was it liable to sanctions if it did not.

The Geneva Protocol and the General Act

There were various attempts to stiffen up these requirements by supplementary Covenants. The abortive Geneva Protocol of 1924 would have involved agreement by the signatory States to submit

to arbitration by the International Court all matters capable of judicial settlement; but the Protocol was made ineffective, after a number of States had signed it, by the refusal of the British Conservative Government of 1925 to implement the views of the first Labour Government in favour of its acceptance. The Optional Clause of the Statute of the Permanent Court of International Justice did not touch matters that were not of a judicial nature. On the other hand, the General Act of 1928 was designed to fill the gap by laying down a definite procedure which member States were asked to bind themselves to follow in dealing with *all* disputes, whether 'justiciable' or not. Under it signatory States were given the option of sending 'justiciable' disputes either to the International Court or to a specially constituted tribunal. 'Non-justiciable' disputes were to be sent in the first instance to a conciliation commission; and if this body could not settle the dispute it was to go to an arbitration tribunal of five, two representing the States directly involved and three representing other States. This tribunal was to have power to give a binding decision, and every State signing the General Act was to bind itself to accept this decision.

Most of the League States, including Great Britain, France and Italy, signed the General Act; but the leading countries did so subject to reservations which in effect destroyed most of its usefulness. Similarly, the general renunciation of war to which most States put their signatures in the American-sponsored Kellogg Pact of 1928 was quite ineffective in the absence of any provision for ensuring its observance. Neither the original clauses of the League Covenant, nor the General Act, nor the Kellogg Pact, had any observable influence on the course of international events in the 1930's. They did not deter the Japanese from attacking Manchuria or Hitler from plotting war in Europe; and when an attempt was tardily made to apply 'sanctions' against Italy in connection with the Abyssinian War, the result was fiasco.[1]

The U.N.O. Charter in Relation to Sovereignty

As we have seen, the United Nations Charter of 1945 goes even less far than the League Covenant attempted to go towards overriding the national sovereignty of any of the Great Powers; for it extends the "unanimity rule" still further, by authorising any Great Power to veto a decision even in a matter to which it is directly a party. It should, however, be observed that although

[1] For a fuller account of all these aspects of the League Covenant, see Part V of *The Intelligent Man's Review of Europe*, by G. D. H. and Margaret Cole (1933).

both the Covenant and the Charter were drafted in terms which avoided any open challenge to the principle of the sovereignty of all national States, great and small alike, both did in fact limit the sovereignty of the lesser States and thus in practice recognised a distinction inconsistent with the principle of 'sovereign equality' on which the United Nations Charter is professedly built. Whether any formal machinery, or none, exists for the regulation of inter-state relations, the 'equality' of all States cannot in practice be recognised; for it could be made operative only if all States, whatever their size or power, were made subject to an equal and binding law. Great States will not accept such a law, which would involve their agreement to be overridden by a majority of States that might in fact possess hardly any military power. But as soon as considerations of power are allowed to count, equality obviously goes by the board; and if inequality is formally recognised, as it has been by implication in both the League Covenant and the United Nations Charter, national sovereignty is to some extent overridden, though only in the case of the lesser States.

What does all this amount to? First, that States recognised, and have recognised for centuries past, that they are morally bound by a somewhat vague and undefined set of principles which used to be called the "law of nations," and is now commonly called "international law." Secondly, that in specific matters, such as the rules of war, the leading States have agreed to formulate rules of international conduct and to embody them in conventions, which they have signed and agreed to regard as binding. Thirdly, that in cases of dispute over treaties or conventions States have often agreed to submit their differences to international adjudication by the Hague Court or the Permanent Court of International Justice; and that some States have agreed to submit *all such* disputes and to abide by the judgment of the Court. Fourthly, that some States had agreed, with or without reservations, under the League General Act of 1928, to submit all their non-justiciable disputes to arbitration. Fifthly, that the obligations of the U.N.O. Charter are much less all-embracing than those of the General Act, in that they are limited to disputes "the continuance of which is likely to endanger the maintenance of international peace and security," and that the nations are committed only "to seek a solution by negotiation, enquiry, mediation, conciliation, arbitration, judicial settlement, resort to regional agencies or arrangements, or other peaceful means of their own choice" (Article 33). The Security Council is indeed empowered to *investigate* any dispute or situation "which might lead to international friction," but

only with a view to determining whether it is "likely to endanger the maintenance of international peace and security." The Security Council can "recommend appropriate measures or procedures of adjustment"; and States which fail to settle a dispute under Article 33 are bound by Article 37 to refer it to the Security Council, which can then either refer it to further enquiry or recommend a settlement. If the Security Council considers that there exists "a threat to the peace, breach of the peace, or act of aggression," it can proceed to apply sanctions "not involving the use of armed force" (Article 41) or, if these are not enough, armed force can be used under its authority (Article 42), and the member States are bound to supply contingents to enable it to make its authority effective (Article 43).

Thus, the U.N.O. Charter, if it goes less far in some respects than the League Covenant and the General Act, goes further in others, in that it confers practically unlimited authority on the Security Council to deal with breaches of the peace, actual or threatened. This power, however, is subject to the veto: it can be used at all only with the agreement of *all* the Great Powers, even if one or more of them is a party to the dispute. In other words, it can be used to an unlimited extent against small Powers, and not at all against any Great Power. This is truly a strange way of asserting the "sovereign equality" of all States.

The truth of course is that the notion of "sovereign equality" is not meant to be applied to the relations between States, but only to their relations to their own subjects. Sovereign equality means in practice that each State is to be free to manage its internal affairs as it pleases, subject only to the condition that it must not so manage them as to constitute a threat to "international peace and security." It is, however, already evident that the interpretation of this condition will give rise to difficulties. Does the present form of government in Spain, under General Franco, constitute such a threat? Some States contend that it does, and have endeavoured to get U.N.O. to intervene by applying some sort of sanctions; but the Security Council has not agreed to this, and is probably not empowered by the Charter to take any action—which of course need not prevent as many countries as so choose from taking action apart from U.N.O., provided that they do not thereby "endanger international peace." It can never be easy to define the circumstances under which the internal conduct of a country's affairs does "endanger international peace." Hitler's conduct of German affairs from 1933 plainly did; but that was an exceptionally clear case. There are some people, especially in America, who argue that the mere existence of a Communist

Government in any State constitutes a danger to peace; and the fear of the spread of this attitude is one of the motives underlying Soviet insistence on the unqualified right of veto, though the fear of the Soviet Union is much more that the 'threat to peace' will be held to arise out of its dealings with its neighbours.

The Sovereign State in the Modern World

The political structure of the modern world has been built on the conception of the Sovereign State, which has gradually ousted that of the personal sovereignty of rulers. The peoples have ceased to be merely 'subjects' of 'sovereign' rulers, and have come to be accepted also as units of the 'sovereign people.' With this development has come the notion of an absoluteness of the 'sovereign,' not only in relation to the internal affairs of each society, but also in relation to other States, subject only to the very general obligations of the 'law of nations' and to such further obligations as the States chose to enter into by voluntary conventions and agreements. Both of the rules of international law and of the obligations involved in such conventions the States reserved to themselves until lately the right of being sole interpreters. The thin end of the wedge was inserted when the Hague Court was set up to act as judge in 'justiciable' disputes; but even then submission of a dispute to the Court remained a voluntary act. The next stage was reached when States made conventions agreeing to submit all their justiciable disputes one with another to the International Court, and thus bound themselves to accept an international decision. But even so, they kept the right to denounce the conventions and agreements by which they were bound: so that there was no real renunciation of national sovereignty. It was another matter when States agreed to submit non-justiciable disputes to arbitration; for the awards of arbitrators on such disputes could not usually be got out of by denouncing conventions or agreements on which they were based. That was why there was so much opposition to the General Act.

Only the great issue of preventing war loomed large enough in 1919 and again in 1945 to compel States to face the problem of really abandoning a part of their sovereignty: and even in this respect the problem has not yet been fully faced. The rules of international law do not prevent war: they only regulate the 'laws of war.' If, under international law, States reserve the right to go to war, they clearly reserve therewith the right to make, or to threaten, war against the war-maker, and are only exercising this right if a number of them make common cause, by threatening war, to preserve the peace. This was the idea behind both the

League Covenant and the United Nations Charter—the idea that seemed to make their obligations compatible with State Sovereignty, even though they involved quasi-legal limitations on the right of the sovereign State to do as it pleased. Sovereignty, it could be argued, never conferred or could confer such a right, because it was always limited *de facto* by the power of other States to hit back. Accordingly, no invasion of State Sovereignty was involved in organising this process of hitting back, unless the organising of it involved an obligation on the part of any State to accept the verdict of other States to a greater extent than it would have had to accept their verdict, on a calculation of forces, even in the absence of any covenant so to do. Small States clearly would always have to do this, if great States chose to use their power to make them and unless they were supported by other great States. Therefore, to bind small States to accept the verdict of the League or of U.N.O. was no greater limitation on their sovereignty than was involved in fact in their being small.

The coercion of any great State raised a different issue; for *de facto* coercion could be exerted upon it only by a clear preponderance of forces against it. The League Covenant, in this spirit, allowed the League to be used to coerce even a great State when all the other great States agreed; but experience showed that the power thus granted was in practice very difficult to use. The U.N.O. Charter recoiled even from so much coercion of a great State, and conceded the unlimited power of veto to each of the 'Big Five,' for the reason that the Charter was born into a world much more consciously rent by ideological differences which it could not push aside than the world in which the League Covenant was drawn up. The League Powers of 1919 left the Soviet Union out, neither inviting it to the Peace Conference nor seeking to enrol it in the League. The victors of 1945 could by no means do the same thing: the Soviet Union was one of themselves, and had besides to be brought into the new structure to make it of any use, because the Soviet's world power and influence were altogether too great to be ignored. Therefore, instead of leaving the Soviet Union and the veto both outside U.N.O., it was necessary to bring them both in.

International Economic Collaboration

It is generally recognised that U.N.O.'s chances of success depend mainly on the extent to which it can help to break down the extreme forms of nationalism in the social and economic field. After all, international action should not need to be thought of mainly in terms of avoiding war and settling disputes between

States: it ought to be conceived much more in terms of positive economic collaboration. The social and economic clauses of the Charter, which are supposed to deal with this aspect, set out, like the political clauses, from an assertion of national rights. The Economic and Social Council of U.N.O. is instructed to promote—

> "(*a*) higher standards of living, full employment, and conditions of economic and social progress and development;
> "(*b*) solutions of international economic, social, health, and related problems; and international educational and cultural co-operation; and
> "(*c*) universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion."

But the Council is instructed to do this by methods "based on respect for the principle of equal rights and self-determination of peoples," and is given no overriding powers. It is clearly contemplated that it is to proceed by the method of promoting international conventions and agreements, without having any power to bind any State to their observance save with its own consent. Nor has the Assembly, to which the Council is to report, any power beyond that of recommendation. There is no provision anywhere in the Charter for the coercion of social or economic offenders against justice, or for any sort of supra-national economic or social authority empowered to plan for the better use of the world's resources in furtherance of the objects which it is to pursue. I am not complaining at the absence of such a provision; for there would clearly have been no chance of getting it accepted in face of the sharp conflict of views concerning the very foundations on which the economic life of the peoples ought to rest. All I am saying is that unless, in practice, positive economic collaboration does develop, U.N.O. is no more likely than the League to lay sound foundations for an age of peace and security.

Doubtless, the draftsmen of the Charter held that, in the main, international co-operation in the economic and social fields will have to be developed in the form of conventions and agreements, signed by such States as are prepared to work together on this or that particular matter, and will emanate mostly from one or another of the 'specialised agencies,' discussed in a previous chapter, rather than from the Economic and Social Council itself. This co-operation, however, will depend entirely on conventions, voluntarily entered into by particular States on each occasion,

and it will remain open to any State to withdraw, subject to due notice, from any convention or agreement into which it may have entered. There may, of course, be pressure, especially on the weaker States, to accept conventions and agreements, and not to withdraw from them; but the entire framework of international economic co-operation is designed to fit the theory that each State remains fully sovereign in the control of its own affairs.

Yet it is manifest that the co-operation that is needed to advance world prosperity and to increase security is something more than the ratification of conventions and agreements. What is required is some power to plan on a more than national scale, and to execute long-term projects of development over areas stretching across national frontiers. It may be possible to fit international trade and even the planning of production as far as it relates to existing capital assets into the conventional pattern; but this pattern will by no means suffice for the planning and execution of new major projects designed to improve productive capacity by means of large-scale investment in the development of natural resources. It will not for example provide for the development of the Danube Valley, which has seven distinct riparian States from Germany to the Ukraine, all interested both in its navigation and in the use that may be made of the main river and of its tributaries for irrigation and for hydro-electric development.

Regional Economic Groups

Such problems might be dealt with by means of regional groupings of the States concerned. But, as we have seen, the new International Bank for Reconstruction and Development seems to be meant to work by the method of capital advances guaranteed by separate national Governments;[1] and the U.N.O. Charter, which leaves room for regional arrangements in political matters, is silent about them in relation to economic affairs—probably because of objections on the part of the United States to anything in the nature of 'discrimination.'[2] Yet regional arrangements for positive collaboration are much more important in the economic than in the political sphere; and, as we have seen, the United States has not hesitated to take part in setting up a Pan-American Social and Economic Committee as an integral part of the Pan-American Congress machine.[3] It is nonsense to suggest that all the positive collaboration the world needs can be done by means of conventions planned on a world-wide scale, or that there is anything contrary to sound development policy in special regional

[1] See p. 990. [2] See p. 983. [3] See p. 1013.

arrangements for economic action, even if these do involve 'discrimination.' Why should it be regarded as perfectly in order for one State to 'discriminate' in favour of itself, but grossly wrong for two or more to come together for closer common action than they can possibly take with all the other countries in the world?

The Claims of Nationality

The whole question of national sovereignty needs fundamental reconsideration in the light of modern technical development. Many States have become impossibly small and uneconomic units for the adequate development of their resources on a purely national basis. Politically, they are too weak to count, if power politics are still to be the rule in world affairs: economically, they are too small to pull themselves out of poverty unless they can work together. It is therefore pertinent to enquire what is the real character of the nationalist sentiment that is so great a force in the world to-day, and holds its own so vigorously in face of the obvious growth of national interdependence.

I have discussed this question elsewhere at greater length than I can give to it here.[1] Briefly, what I there argued was that "any group which feels itself to be a nation wants the fullest freedom to use its own language—the language that comes natural to it and embodies an important part of its cultural tradition. It wants this language to be employed in official, as well as in private, affairs. It wants its laws to be written and interpreted in this language: it wants this language to be spoken in its courts, police stations, and administrative offices. It wants the teaching of this language to be basic in its schools, and the teaching of other subjects to be carried on in this language. It wants newspapers to be published, books to be written, dramas to be performed, in this language. In other words, it wants its traditional tongue to be unmistakably the language of its country."

Beyond this, I argued, "nationalists want their schools and universities to be places where the young are taught to understand and to value the national history and tradition, and to master the national values and ideas of living. . . . They want those arts in which there is a tradition of national excellence to be especially cultivated . . . and they claim the right to follow the traditional religion of their nation."

I went on to point out that this religious claim often gives rise to difficulties, because it may be not simply a claim for freedom of worship, but also a claim for the exclusive practice and teaching of the national religion, and some religions are

[1] See *Europe, Russia and the Future*, by G. D. H. Cole, Chapter 12.

basically intolerant. This latter claim—to exclusiveness—I contended to be inconsistent with the rights of individual and group self-expression which all democracies ought to safeguard and to encourage. Nevertheless, it may be necessary to compromise. "When the great majority of a nation belong to a particular Church, it may be necessary to allow that Church some part in the public ceremonials of the people . . . but it would be wrong to allow any Church to insist on membership as a qualification for office, or for any right of citizenship, and it would be wholly indefensible to endow any such Church with any exclusive control over education, or with any coercive power at all over persons who do not voluntarily accept its discipline."

The things people really want, I argued, as distinct from the things which nationalist politicians often try to make them want, and represent them as wanting, are fully consistent with the inclusion of distinct national groups within larger political units, federal or confederal in structure, and endowed with enough economic authority to undertake major programmes of regional planning for the whole supra-national area. This grouping must, however, be done in such a way as to ensure that each 'nation' "has its affairs administered in its own language, by public officials who speak that language as natives, and have as part of their mental make-up the tradition of the nation." They can have this, if suitable arrangements are made, without constituting entirely separate and 'sovereign' national units. But both nationalist politicians and many of their followers find this difficult to believe because hitherto, save in a very few cases (Switzerland is, of course, the outstanding example) supra-national societies have been organised on the basis of the national supremacy of one of the nations over the rest. The knowledge, and often the memory, of this leads people to identify the cause of national self-expression with that of national sovereignty, even where the national territory is plainly too small for this sovereignty to be effectively exercised, and where national separateness in economic matters involves the perpetuation of poverty for the mass of the nation.

Hitler's Effect on Nationalism

Hitler's broom, sweeping across the frontiers of Europe, instead of destroying, intensified national sentiment; for the Nazi doctrine of the *herrenvolk*, ruling over inferior races, was a direct provocation to national resistance. Therefore, instead of helping to unify Europe, Nazism has aggravated its centrifugal tendencies, at any rate in the West. It remains to be seen what has been the effect of

war in the eastern part of the continent; for there, instead of a replacement of the old national government machines, there has been a social revolution which has involved the construction of virtually new States. In Yugoslavia, there seems to be reasonable hope that the new federal State of the Serbs, Croats and Slovenes will succeed in liquidating the old Serb ascendancy and in constructing a workable society based on the equality of the co-operating national groups. Elsewhere, except in Czechoslovakia, the post-war States are mainly composed of single nations; but they are all closely tied to the Soviet Union, not only because they are occupied by Soviet forces, but even more because the Soviet Union is the obvious defender of the social revolutions which they have undergone. What has still to be seen is whether the requirements of this revolutionary defence, together with the close economic and political relations that will evidently exist between them and the Soviet Union, will succeed in breaking down, or at all events in weakening, their national antagonisms, and in enabling them to co-operate economically and politically one with another, as well as each separately with the Soviet Union. There is some hope that this may happen, if it is not prevented by the intrigues of American or other capitalist groups which are determined to do all they can to 'save' these States for capitalist exploitation, and will not hesitate to play upon nationalist sentiment in order to achieve their ends.

The Work of U.N.R.R.A.

The need for close co-operation between the countries of Europe has become particularly urgent now that the work of U.N.R.R.A. has been brought to an end. U.N.R.R.A. was given barely enough resources to carry through up to the end of 1946 the essential tasks of immediate relief that had been entrusted to it, and to make a very small contribution towards the rehabilitation of the countries with whose fortunes it was concerned. At an earlier stage it had been said that by the end of 1946 the countries which had been getting help from U.N.R.R.A. would be in a position to stand on their own feet, or at any rate to secure loans that would enable them to complete the work of economic recovery without further gifts. It was, however, plain by the middle of 1946 that these hopes could not possibly be fulfilled—unless indeed large loans were to be given on a non-commercial basis and with little or no prospect of their being repaid. There was, moreover, still the intractable problem of the 'displaced persons'; for it had been found that, after the less difficult

repatriations had been carried through, there remained a large mass of practically homeless persons for whom some continuing provision had to be made. About six million persons had been repatriated under U.N.R.R.A.'s auspices; but a million—all difficult cases—were left. In order to deal with these it was proposed to set up a separate international organisation to replace U.N.R.R.A. ; but even when this was in train it was clear that many other urgent needs remained to be met. Up to August, 1946, U.N.R.R.A. had shipped to the thirty-nine countries affected by its operations about 14 million tons of supplies; it had received in contributions from the countries in a position to help nearly 3,700 million dollars, and had spent or assigned practically the whole of this sum. By the end of 1946 there would be no funds left, unless the contributing countries agreed to allocate further sums. U.N.R.R.A. was, however, already committed, even if its work in Europe was brought to an end, to continue aid to China until March, 1947. The U.N.R.R.A. administration estimated in July, 1946, that the European countries aided by it would need about 1,100 million dollars' worth of food imports for the food year 1946–7 in order to maintain a tolerable minimum standard of nutrition, but that, owing to world shortage, they would be unable to get more than about $750 millions' worth, even if all difficulties in the way of payment were removed. Allowing for the spending of $300 millions of U.N.R.R.A. balances before the end of 1946, this left a requirement of $450 millions to be covered. In addition, it was reckoned that the same countries would urgently need seeds costing about $60 millions and fertilisers costing about $140 millions, without which their agricultural production could not be restored. Their imperative needs for fuel were put at $60 millions; and it was stated that there were further pressing needs for imports of agricultural machinery and implements. Possibly some part of these requirements could be met out of the proceeds of exports from the countries concerned; but it was out of the question for more than a small fraction of the need to be met in 1947 from this source.

The U.N.R.R.A. administrators appealed to the supplying nations to ensure that these needs should be met. It recommended that a part of them should be financed by loans from the new International Bank for Reconstruction and Development; but clearly such loans would be available, if at all, only for reconstruction projects and not for sheer relief. It seemed clear to those who were most closely in touch with the work and knew how desperate the position in 1947 was likely to be that the right course would be to continue U.N.R.R.A. in being for a further period

and to vote additional sums in the form of further levies based on the national incomes of the contributing countries.

This, however, did not happen. It was made clear that the United States was not prepared to make any further contribution to U.N.R.R.A. ; and, as the United States was by far the largest contributor, its decision was final. The motives that lay behind this premature disbandment of U.N.R.R.A. were mixed. It was alleged that the funds were being misused, as doubtless to some extent they were, above all in China; that there was political discrimination in the use made of them in countries under Communist control—as there may have been, but hardly more in such countries than in others; that the gifts of U.N.R.R.A. were interfering with the re-establishment of ordinary capitalist trading; that they were being used to bolster up Governments which the United States disliked; and finally that the American people had been generous enough, and could not be expected to vote yet more money in aid of countries which ought to be able, by 1947, to look after themselves. Great Britain also, in face of its heavy obligations in Germany and elsewhere, expressed its inability to make further contributions. Under the weight of all these criticisms, U.N.R.R.A. was wound up without any new agency being set up to replace it, except in its functions in respect of Displaced Persons.[1] Its disappearance was a tragedy, not only because of the direct suffering which it entailed, but also because it was a clear sign of the waning of the spirit of international collaboration in the tasks of re-building the devastated world.

Europe's Need for Further Help

U.N.R.R.A. has undoubtedly been of immense value in preventing sheer starvation in many of the liberated countries since they were set free. It is, however, undeniable that it was set up on too narrow a basis, and on too optimistic assumptions about the possible rate of economic recovery in the devastated countries. The basis was too narrow because U.N.R.R.A. was planned mainly as a relief agency and was able to make only a small contribution to rehabilitation and none at all to long-run redevelopment. The original idea was, no doubt, that these tasks should be taken over by the International Bank; but that idea presupposed the credit-worthiness of the countries concerned in a commercial sense, whereas it has turned out that they need gifts of capital for reconstruction as well as actual day-to-day relief over a longer period than was provided for when the plans were made. Moreover, if in these respects the plight of liberated Europe is serious,

[1] See page 1005.

that of China is evidently much worse—especially should civil war between the rival Chinese Governments be continued despite the attempts to persuade the Government of Chiang Kai-shek to arrive at a reasonable accommodation with the Chinese Communists and with the 'liberal' groups in China as a whole.

U.N.R.R.A. has been, perhaps of necessity, an international organisation controlled entirely by the countries which have provided the relief, though its working staff has included many citizens of the receiving countries. It has been a most valuable experiment in international co-operation among the former group of countries; but in the nature of the case it has been unable to take any effective action to promote co-operation among the countries which have been its beneficiaries. What is now lacking is a policy, in the hands of a much-needed successor, that will both bring the beneficiaries as responsible partners into the control, and be able to attach to its grants reasonable conditions about the co-operative behaviour, of the Governments of the recipient countries. An agency armed with powers of this type it could become a most useful instrument in helping the countries to replan their economies on less nationalistic and more mutually beneficial principles. It is, however, too much to hope that, in the present state of the world any such thing will be done.

CHAPTER V

MORALS AND POLITICS. DEMOCRACY. CONCLUSION

THE CHARTER OF THE UNITED NATIONS begins with a series of paragraphs which profess to set forth the fundamental principles by which "the peoples of the United Nations" mean to be guided and the essential objects which they propose in common to pursue. The United Nations, we are there told, are determined not only "to save succeeding generations from the scourge of war," but also "to reaffirm faith in fundamental human rights, in the dignity and worth of the human person, in the equal rights of men and women and of nations large and small," and "to practise tolerance and live together in peace with one another as good neighbours."

With what sincerity, and with what success, are these principles actually being followed, or these objects pursued? If the words I have just quoted have any meaning, they must be taken as referring not to some human beings only, but to all, and not merely to the United Nations in their dealings one with another, but to the whole world, at any rate as far as the influence of the United Nations extends. They must apply to Germans and Austrians and Italians—to say nothing of Indians and Africans and American negroes—as much as to Englishmen or Americans or Russians; and they must apply to bad men as well as to good, and to mistaken men as well as to those who think aright. If they do not so apply, they are not statements of recognised "fundamental human rights": they are hypocrisy. Yet how is the belief that they are meant to apply to all mankind reconcilable with the course of history since the Nazi resistance collapsed? It may be said that U.N.O. is not to blame for what has been done by the leaders of the United Nations in another capacity—as dictators of the peace ensuing upon the unconditional surrender of the enemy. But U.N., if not U.N.O., must bear the responsibility for these doings; and the same men, as leaders of their nations, are responsible in both fields of action.

The Challenge to Civilised Values

I ask: Is it consistent with the Preamble to the Charter of the United Nations to decree the mass removal of populations under

conditions which are bound to cause intense suffering, dreadful privation to many entirely innocent persons, and to many death? Is it consistent with the Charter to pour millions of displaced persons into a territory that is already desperately short of food? Is it consistent with the Charter, or with the long-recognised principles of international law, to keep the civilian population of an occupied country on a starvation diet, and at the same time to deny them such means as they could have of working for their better subsistence by making the best use of their remaining productive resources? Is it consistent with the Charter to punish the children who are being born for the sins of their parents, or for the sins of persons whose only connection with them is that of belonging to the same nation? Is it consistent with the Charter to argue that because the Nazis did evil, their conquerors are entitled to follow their example?

All through this book I have been keeping a curb on my pen, and stating facts coldly as facts with as little moral commentary as possible. I have done this deliberately, because I wanted my readers to understand *why* the world is in the parlous condition to which it has been reduced, and *why* it is a matter of so much difficulty to straighten out the tangle of human affairs. But I cannot let my book go without saying something of what I feel, or without preaching a little, as well as endeavouring coldly to elucidate the facts.

There will be no novelty in what I have to say. Other men have said it, and are saying it every day; and I hope more and more men will keep on saying it whatever happens. For it is the plain truth that we are at the crisis of our civilisation, and that the hope for the future depends on our success in keeping the knowledge of what is good alive among men, even if, under stress of the times, their collective deeds are terribly evil.

Why they are evil is all too plain. It is because our 'goodness,' such as it was, in our collective behaviour, was a part of a certain traditional way of living which had been gradually built up among us and appeared to provide a framework of security within which we could afford to practise virtue and decency, not in a thoroughgoing fashion, but to an extent that was by no means small in relation to the record of the human past. Our international morality was always greatly inferior to our private morality; but as long as the foundations of living were tolerably stable the one was influenced by the other. As men grew more humane in their private dealings one with another, they threw up rulers and statesmen who were also somewhat more humane in their public dealings. The morality of States followed behind

private morality; but it moved, however slowly, in the same direction.

The Moral Basis of Western Civilisation

At any rate, this was true of Western Europe, of the United States, of the British Dominions, and, I think, of a number of other countries as well. It is easy to point to the shortcomings of moral conduct, on the part of individuals as well as of States, within this privileged region—privileged because it was in enjoyment collectively of a productive power far beyond anything that any great body of men has ever been in command of before. The improvement in personal morality must, indeed, be regarded largely as a by-product of this accession of wealth. We grew kinder one to another, we children of the Industrial Revolution, because we had to struggle less for the bare means of living, and because it became less necessary for those who coveted riches, even moderate riches, to trample hard and consciously on others in order to get them. Much trampling there was still; but it was less sheerly brutal and, save exceptionally, much less conscious. No one who studies with any care the history of any West European society over the past two centuries can doubt that humanitarianism has made an immense, though limited, advance. It is not important to decide how much of this advance was due to pressure from below, and how much to compunction that affected all groups save the lowest. What matters is that the change did occur, and that many forms of tyranny and of remediable suffering that our ancestors hardly blenched at had become intolerable to us only yesterday, whenever we were conscious of them as being inflicted upon men and women whom we recognised as being like ourselves.

The reservation contained in the last seven words of the preceding sentence is important. The improvement in human manners applied most within the range of personal contacts. The actual sight of gross tyranny or of remediable suffering came to affect us more. And we also learned to generalise from what we saw to what we might any day see, so as to extend our sympathy from those whom we saw to others like them who might be in like case. This sympathy, however, grew weaker as it ranged further afield. It was reasonable that we should care more about the condition of our own fellow citizens, whose likeness to ourselves we could most easily appreciate, because in their case appreciation of their plight was associated with the possibility of action to improve it. We could not only be 'charitable' to our fellow citizens: we could also invoke the aid of the State to relieve them; whereas, in

the case of the citizens of other States, the main responsibility evidently rested elsewhere, even if we could not divest ourselves of all share in it. But it was not reasonable, however natural, for us to feel as little sympathy as we did for the sufferings of people who had different coloured skins from ours, even where our State had made itself by conquest responsible for their government. It was unreasonable, but natural, that we continued to tolerate in colonial territories tyrannies and sufferings from which we should have recoiled if we had found them occurring nearer home. It was natural, because these colonial peoples were less obviously like ourselves, and therefore less readily identified with ourselves by the imaginative act of putting ourselves in their place.

This imaginative act is the necessary foundation of that sympathy which lies at the root of decent conduct. Assimilation of manners has been a vital factor in the growth of humanitarian sentiment; and it has been also one of the chief products of advanced industrial civilisation. For this assimilation is possible only when enough is being produced to lift more and more of the people out of the slough of sheer primary poverty, and give them some command over the decencies of living. As the poor get rather less poor they ape the manners of their 'betters,' who begin by sneering at them for doing so, but come presently to recognise that they not merely are trying to appear, but actually are, of much the same human stuff. Thus out of 'economic surplus' comes a growth of common humanity. The reformers are always trying to accelerate this growth, and are therefore constantly dwelling on its shortcomings; but the growth is real. Or rather, it seemed real and solid, until only the other day.

Moral Standards in British Society

And it is real—here at home. In Great Britain at any rate, we are still trying to improve on our standards of collective social behaviour and are setting ourselves higher objectives in the fields of social security, democratic education, health and the amenities of town and country living, not for some people only, but for us all. In other West European countries that have been much more shattered by war than we have been, this progress has been sadly interrupted; but I believe the desire is there to resume it at the earliest possible moment. The charity that begins at home has become—at home—more inclusive and wider, and is coming to be taken by the majority of the people more as a matter of course.

But abroad? There too we lay plans, create Economic and Social Councils, Food and Agriculture Organisations, and accept through U.N.R.R.A. and in other ways some responsibility for

the well-being of peoples besides our own. Yet, side by side with these doings, we acquiesce in horrors unmatched in the dealings of civilised nations for centuries past. There is stark contradiction in our attitude: with one hand we relieve, while with the other we smite the innocent equally with the guilty.

Why so? Because, when the case is put to us in terms which we can readily appreciate as those of human obligation, such as we have learnt to observe increasingly among ourselves, we are ready to shoulder the burden. When, however, the case for common humanity gets mixed up with other issues, the straight appeal to sympathy is lost. There is little will among us to make the German people suffer, innocent as well as guilty, babies as well as adults; but there is a callousness to this suffering, when it appears not as a thing inflicted deliberately, but as a by-product of something else.

The Nazi Legacy to Western Europe

It is of course far easier for us than for most of the peoples of Western Europe (I shall come presently to those of the East) to be merely callous and not revengeful. Being bombed is bad; but it is not at all comparable with being occupied and enslaved—the more so because the bomber does not present himself, day after day, in visible human form. He has an elemental, inhuman character that fails to arouse anger as readily as the tyrant walking the earth. It would be absurd to expect the peoples who have suffered occupation not to feel much more bitterly than we do towards the Germans. Yet, even so, I doubt if many Frenchmen, or Dutchmen, or Belgians feel any desire to starve the German people in order to avenge their wrongs. The sentiment of common humanity in them, as in us, will assert itself, as an element in their traditional way of thought and feeling, whenever the case is put clear of other entanglements. As for the Americans, they have least ground of all for forgetting their common humanity; for the Nazis never hurt them as they hurt us—much less as they hurt the peoples of occupied Europe.

The Nazi Terror in the East

In occupied Europe, too, there are important differences. It is vital to remember that war was not waged by the Nazis at a uniform level of brutality in East and West. Nazi methods were bestial enough everywhere; but they were far more bestial in Eastern Europe—and above all in the Soviet Union—than in the West. The *herrenvolk* had a nice way of discriminating between 'inferiors.' Their racial doctrine was neatly graduated: to them,

West Europeans were on the whole inferior men, whereas East Europeans, and especially Russians, were merely vermin. It is no wonder if the legacy of hate left behind in Eastern Europe is much more bitter than anywhere in the West. The West hates its Quislings more than it hates the Germans; but many of the Quislings were Quislings just because the Nazis regarded the Western peoples as human inferiors, and not as altogether outside the human pale.

There was logic in this distinction, horribly perverted as that logic was. The peoples of the West *were* more civilised than the peoples of the East—because they were less poor. They were better educated, more skilled in the arts of production: they could contribute more as serfs to the triumph of the *herrenvolk*. They were worth keeping, if they could be tamed and made to work for their conquerors' advantage: whereas the peoples of the Eastern part of Europe would be all the more useful if they were thinned out. They had no individual value, in the Nazi scale. The more died, the more free land for German settlers, and the more surplus for German appropriation. So why should they not be killed? The logic was complete, and was the easier to apply because it was easier for the Nazis to teach the German people to regard Russians or Poles as vermin than it could be to teach them so to regard people with habits and standards of living more like their own. It was the same thing, carried of course vastly to excess, as the Englishman's readiness to behave to a 'native' in Kenya as the same Englishman would not have thought of behaving to a 'native' of Lancashire or of London—or even of Ireland—if he had had the chance.

The Russian Reaction to Nazism

In Eastern Europe, Nazi fiendishness met Russian furious resistance. The character of war as waged on the Eastern Front—as also in Japanese-occupied areas—was such as to uproot all civilised conventions. The 'law of nations,' as evolved over many centuries of Western development, went simply for nothing. The blame for this rests on the Nazis; for they scorched the soil of human decency in their first attack, as they had done already in Poland. It is, however, undoubtedly the case that in the Eastern theatre of war there was much less of civilised convention to destroy. The Soviet Union had fallen heir to an empire which had never experienced the mitigation of manners that follows upon industrialisation when its first impact of ruthlessness is over and its material gains begin to filter down to the main body of the people. It is not too much to say that the Russians, though they

had no cult of cruelty, such as gave the Nazi creed its taint of madness and horror, had no tradition of loving-kindness either. When the Nazis made war upon them with every act of savage bestiality, they hit back with many fewer inhibitions than the peoples of the West. I am not seeking to blame them for this: they had far too much to bear for blame to be in question. I am noting the fact, because it has a vitally important bearing on the problems with which this book is an attempt to deal. The Russians reacted as no people could have been much blamed for reacting under so severe a strain, and as they, in the light of their history, were bound to react. War in the East became, by the Nazis' fault, on both sides an appalling horror.

There is no need here to go into details. The sheer facts are not in dispute. What emerged from them, on the Soviet side, when it came to considering the conditions of peace, was a policy drawn up in a mood of ruthlessness that left wholly out of account every element of immediate human suffering. The Soviet leaders were determined that the ordeal through which their people had passed—and that had destroyed a great part of the flower of their rapidly advancing culture—should never be experienced again, if *anything* they could do would help to prevent it. In this spirit they pushed the Polish frontier forward to the Oder-Niesse Line and decreed mass-expulsions of German populations without caring whether those whom they expelled would die on the journey, or starve when it was over, or, by crowding in among already overcrowded populations in what was left of Germany, spread starvation and despair wherever they went. They were not punishing the Germans in doing this: they were simply disregarding the fact that they were human beings possessed of elementary rights.

Where We were to Blame

Nothing could prevent the Soviet Union from following this policy when its leaders had decided to follow it. In the areas occupied by the Red Army the Soviet Union could, in the last resort, do what it pleased. There was nothing and nobody to stop it, if its course was finally set. This was the excusè advanced by the leaders of Great Britain and the United States for acquiescence and indeed for the positive endorsement of the Soviet policy embodied in the Potsdam decisions. What else could they have done, the Western leaders in effect asked, unless they were prepared in the moment of victory to break the unity of the allied nations and to begin at once to prepare the line-up for another world war? The difficulty in which they were placed is obvious;

but they did the wrong thing. They could not have prevented the Soviet policy, but they need not have become parties to it. They could have accepted its consequences under protest, without accepting the policy itself; and they could have insisted at once that, if the Soviet Union persisted in its programme of mass-deportations, they must reserve the freedom to take any steps that might be necessary in their own zones of occupation to prevent disaster from spreading over all Germany. They should not have agreed to receive deportees into their own zones without adequate guarantees that the food surpluses of the Russian zone would be available for feeding them; and they should not have agreed to any plan for the scaling down of industry in the West or for the removal of plant as reparations until there had been time to survey the position and to find out how much industrial capacity the German people would need to retain in order to live at a tolerable human standard. It may be answered that they did try to do some of these things, after Potsdam. But the mischief was done when, at Potsdam, Mr. Churchill and Mr. Attlee between them let the Soviet policy of mass-expulsions—and therewith, to make matters worse, a not much modified version of the then American policy of 'pastoralising' Germany—become, without open protest, agreed decisions of the United Nations. It would have been infinitely preferable to face fierce Russian anger then than to face the same anger now with the damage done and part of the moral responsibility for it resting on the Western Powers.

We could not have stood out against the deportations. But we might, if we had stood out at Potsdam, have been able to do a good deal both to regulate their pace and to mitigate their effects; and we might have gained valuable time for arranging better for the settlement of the deportees and for placing them in productive work. Above all, by keeping our hands clean, we could have given ourselves the chance of helping to lay the foundations for a new democratic Germany; whereas, by acquiescing and accepting, even if reluctantly, we poisoned the peace for our own people and wrecked our best chance of restoring Germany, or most of it, to the cultural inheritance of the West. Our political immorality did not pay: we are now reaping its bitter fruits.

The Consequences of Apostasy

Of these fruits, which are setting the teeth of the children of Germany on edge, I have written, in that aspect, in an earlier chapter. I am concerned here with the eating of them in Great

Britain and in Western Europe as a whole. The outcome of our apostasy from the tradition of Western culture is a mood of deep disillusionment among our own people. This appears, so far, only in the realm of foreign relations; and its social consequences are still masked by the continuance of a good deal of social idealism in home affairs. We are still, on the whole, keen on doing something to ensure that our neighbours get a fairer deal, and we are still, on the whole, desirous of conducting our domestic politics on decent principles and with very little hate. We are also for the most part still prepared to respond to a sheerly humanitarian appeal from beyond our frontiers, when we can so disentangle it as to see it clearly for what it is. But we have lost all faith in the practicability of making this decency the foundation of our attitude in world politics.

This does not mean that we have substituted for this decency any other foundation. We have not. We have not gone over to Soviet ruthlessness in the pursuit of sharply defined ends—much less to Nazi idealisation of the under-man. We have merely ceased, in international affairs, to have any guiding principles at all, or to know either what we are aiming at or how we propose to take even the next step. This is not simply or mainly a criticism of Mr. Bevin as Foreign Minister: he is a victim of the situation much more than its cause. Perhaps, if he were a greater man than he is, he could do more than he is doing to retrieve past mistakes. Indeed, I am sure he could. The situation, however, is not of his making. It is the outcome of a moral apostasy, a falseness to the tradition of Western civilisation, which has left the entire people adrift and has practically abolished public opinion, as the mouthpiece of that tradition, and thus deprived it of any power to make its voice heard in the shaping of our national course in international affairs.

What is to be Done?

What is to be done? We must set out, in partnership with everyone in Western Europe who is prepared to help, to bring back the tradition of Western civilisation as a practical force in world affairs. If the attempt to achieve this involves us in unfounded charges of plotting against the Soviet Union, let us at any rate be able to feel that we are being attacked for trying to do the right thing, and not merely because our shilly-shallying reveals our weakness of purpose and so lays us open to trouncing. And, if we wish to uphold certain moral values in which we believe (and are disposed to regard ourselves as a cut above the Soviet Union for believing—which is a very common attitude) let us at all costs

behave as if we did believe in these values, and not merely jabber about them. The Soviet Union respects strength, as it despises weakness and uncertainty of conduct. If we wish to convert the Soviet Union to belief in 'democracy,' as we understand it, let us at any rate show the Soviet Union that our 'democracy' deserves its respect.

The Historical Roots of Western and Eastern Democracy

So I come back, at the end of this long book, to the word 'democracy.' It is the profession of our country that it believes in democracy and seeks to move steadily towards it. But we are all too apt to talk as if a willingness to move, at any pace, in a democratic direction were the same thing as being already a democracy; and we are also much too prone to argue that because we choose our Government by a method near to universal suffrage we have said the last word in the application of the democratic principle. I have made it clear in earlier chapters that I appreciate highly the value of these achievements and tendencies and regard them as constituting important *elements of democracy* in our society and as the basis on which we can build a more thoroughgoing democracy, if we want it enough. I wish, however, again to stress seven points which I have made in previous chapters, to wit—

(1) That the elements of democracy in our social system have been inserted into a pre-existing aristocratic structure, which still retains a large amount of power, and that they have been thus inserted with success owing to certain historical causes which have been present in Great Britain and in a few other countries, but not over most of the world.

(2) That the most important of these historical causes has been the rise in productivity which followed the Industrial Revolution, and made it possible for the main body of the people to be raised above primary poverty, and thus to become, by stages, competent to use the forms of active citizenship which the aristocrats had created for their own exclusive use. If the Industrial Revolution had meant, as it did for a time, 'increasing misery,' this would not have come about. It did mean, and involve, in the longer run a rise in standards of living and education that made the main body of our people *bourgeois*, in comparison with the main bodies of people in the countries which the Industrial Revolution did not reach save in the form of intenser exploitation from outside.

(3) That in the absence of such economic developments,

there can be no basis for a social evolution towards a type of democracy capable of taking over and adapting the political instruments of aristocratic government—that is to say, for the successful working of a parliamentary system such as we are accustomed to in Western Europe, and that accordingly, if an advance towards democracy is to be made under such conditions, it has to be made by radically different methods and is bound to involve the creation of a new kind of political machine.

(4) That the political machinery appropriate to the conditions postulated must be of such a character as will most rapidly assist in the creation of an educated people, armed with the means of raising itself out of poverty and of achieving the qualities that will enable it intelligently to debate its own affairs and to form a social and cultural tradition of its own; and that such machinery is bound in its early stages to be highly authoritarian and intolerant of differences which may delay or prevent the successful consolidation of its democratic foundations.

(5) That it is reasonable to expect such a society, as it escapes from poverty, feels more secure, and produces a more educated people, gradually to throw off its more authoritarian characteristics, to become more tolerant, and to acquire many of the same characteristics as societies which have followed a different course of evolution towards democracy.

(6) That, nevertheless, different national inheritances of cultural tradition will lead to different forms of democratic expression in different societies, and to differences in values and especially in the emphasis laid on this or that aspect of liberty and democracy.

The Future of World Government

(7) Last of all, that, accordingly, there will always be great difficulties in the way of comprehensive world government, which must rest on compromise between varying national valuations, expressed in different sets of institutions, sometimes irreconcilable in any full sense; and, finally, that the largest measure of success in reconciling and harmonising these differences is likely to be achieved where the fullest opportunity is afforded for regional co-operation of like with like, within the wider framework of world co-operation in such matters as do not present irreconcilable differences.

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